Supreme Court, U. S.
FILED
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MICHAEL RODAK, JR., CLERK

APPENDIX

No. 74-124

In The Supreme Court of the United States

OCTOBER TERM, 1974

BLUE CHIP STAMPS, et al.,

Petitioners,

v.

MANOR DRUG STORES, On Behalf of Itself and All Other Users of Blue Chip Stamps Who Were Entitled But Failed to Purchase Stock of Blue Chip Stamps.

On Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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Petition for Certiorari Filed August 15, 1974.
Certiorari Granted November 11, 1974.

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CHRONOLOGICAL LIST OF RELEVANT DOCKET ENTRIES

United States District Court
for the Central District of California

November 10, 1970 — Complaint for breach of contract, fraud and misrepresentation filed.

January 27, 1971 — Amended complaint for breach of contract, fraud and misrepresentation filed.

March 5, 1971 — Notice of motion to dismiss and memorandum of points and authorities of defendant Market Basket filed; notice of motion to dismiss and memorandum of points and authorities of other defendants filed.

March 24, 1971 — Plaintiff's memorandum of points and authorities in opposition to motions to dismiss filed.

March 31, 1971 — Reply memorandum of defendant Market Basket in support of motion to dismiss filed; reply memorandum of other defendants in support of motion to dismiss filed.

May 25, 1971 — District Court opinion and order granting defendants' motions to dismiss filed.

June 17, 1971 — Plaintiff's notice of appeal filed.

United States Court of Appeals
for the Ninth Circuit

November 11, 1971 — Appellant's opening brief filed.

December 13, 1971 — Appellees' brief filed.

January 10, 1972 — Appellant's reply brief filed.

March 2, 1972 — Argued and submitted to Judges Browning, Hufstedler and Choy.

March 17, 1972 — Submission vacated and SEC invited to file brief *amicus curiae.*

May 3, 1972 — SEC *amicus* brief filed.

May 23, 1972 — Appellees' brief in reply to SEC filed.

May 26, 1972 — Appellant's brief joining in SEC *amicus* brief filed.

June 8, 1972 — SEC letter in reply to appellees' reply brief received.

June 23, 1972 — Appellees' letter in response to SEC letter received.

July 13, 1972 — Appellees' letter calling attention to *Mount Clemens Industries, Inc. v. Bell* decision received.

July 20, 1972 — Order entered requesting briefs on *Mount Clemens.*

August 14, 1972 — Appellees' memorandum respecting *Mount Clemens* received; SEC's memorandum respecting *Mount Clemens* received.

August 16, 1972 — Appellant's supplemental brief *re Mount Clemens* filed.

August 24, 1972 — Appellees' letter *re* appellant's supplemental brief received.

September 13, 1972 — Appellees' reply to appellant's supplemental brief filed.

October 15, 1973 — Opinions of the Court of Appeals for the Ninth Circuit and judgment filed and entered.

October 29, 1973 — Order staying mandate and extending time to petition for rehearing *in banc* entered.

November 5, 1973 — Petition for rehearing and suggestion of rehearing *in banc* of appellee Market Basket filed; petition for rehearing and suggestion of rehearing *in banc* of other appellees filed.

January 23, 1974 — Order filed requesting responses to the petitions for rehearing *in banc.*

February 20, 1974 — Appellant's response to petitions filed.

February 21, 1974 — SEC's response to petitions filed.

April 1, 1974 — Order filed modifying majority and dissenting opinions, and denying petitions for rehearing and rejecting suggestion of rehearing *in banc.*

April 10, 1974 — Appellees' motion for stay of issuance of mandate pending petitioning for certiorari filed; stay of mandate ordered until April 18, 1974, to permit application to panel majority.

April 16, 1974 — Order staying mandate until July 1, 1974, filed.

June 21, 1974 — Order of Mr. Justice Douglas entered extending time to petition for certiorari to August 15, 1974.

J. J. Brandlin, James E. Ryan
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Attorneys for Plaintiffs

[Filed January 27, 1971]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

Manor Drug Stores and all other users of Blue Chip Stamps who were entitled but failed to purchase stock of Blue Chip Stamps, on behalf of themselves and all other persons similarly situated, *Plaintiffs,* vs. Blue Chip Stamps, a corporation, Blue Chip Stamp Company, a merged corporation, Lucky Stores, Inc., Market Basket, a corporation, Purity Stores, Inc., Ralphs Grocery Company, a corporation, Safeway Stores, Inc., Thriftimart, Inc., Thrifty Drug Stores Co., Inc., Vons Grocery Co., a corporation, Robert E. Alexander, Donald A. Koeppel, Leonard H. Straus, William F. Ramsey, Robert E. Laverty, Richard Ralphs, John R. Niven, Fred von der Ahe, *Defendants.*	CIVIL NO. 70-2539-RJK Amended Complaint for Breach of Contract, Fraud and Misrepresentation JURY TRIAL REQUESTED

FIRST CAUSE

I

This action is instituted under the Securities Act of 1933 (15 U.S.C. §§ 77a, *et seq.*); under the Securities Exchange Act of 1934 (15 U.S.C. §§ 77a, *et seq.*); under § 10 of the Securities Exchange Act of 1934 (15 U.S.C. 78j(b)) and Rule 10b-5 adopted thereunder; under § 12 of the Securities Act of 1933; and jurisdiction is founded on the Securities Act of 1933 (particularly, without limitation, § 22 thereof [15 U.S.C. § 77v]) and the Securities Exchange Act of 1934 (particularly, without limitation, § 27 thereof [15 U.S.C. § 78aa]); and jurisdiction is founded on the doctrine of pendent jurisdiction as to causes arising out of state law.

II

Plaintiff is a corporation duly organized and existing under the laws of the State of California, with its principal place of business in the State of California, and brings this action in its own behalf and as a class action on behalf of others similarly situated in accordance with the provisions of Rule 23 of the Federal Rules of Civil Procedure for the United States District Courts.

III

The persons who constitute the class are so numerous that joinder of all members is impracticable; there are questions of law and fact common to the entire class; the claims of plaintiff are typical of the claims of the entire class and each member thereof; and the plaintiff will thoroughly and adequately protect the interests of the entire class and each member thereof.

IV

Defendants, ALEXANDER'S MARKETS, LUCKY STORES, INC., RALPHS GROCERY COMPANY, THRIFTIMART, INC., MARKET BASKET, and THRIFTY DRUG STORES CO., INC., are corporations, each of which has been organized and is existing under the laws of the State of California; defendant, PURITY STORES, INC., is a corporation organized and existing under the laws of the State of Nevada and is authorized to do business and is doing business in the State of California; defendant, SAFEWAY STORES, INC., is a corporation organized and existing under the laws of the State of Maryland and is authorized to do business and is doing business in the State of California; defendant, VONS GROCERY COMPANY, is a corporation organized and existing under the laws of the State of Delaware and is authorized to do business and is doing business in the State of California. Each of said defendants maintains its principal place of business in the County of Los Angeles, State of California, with the exception of LUCKY STORES, INC., which has its principal place of business in the County of Alameda, State of California, PURITY STORES, INC., which has its principal place of business in the County of San Mateo, State of California, and SAFEWAY STORES, INC., which has its principal place of business in the County of Alameda, State of California.

The said corporate defendants listed in this Paragraph IV were stockholders of BLUE CHIP STAMPS at the time of the offering hereinafter described and owned approximately ninety percent (90%) of its stock at said time.

V

Defendants, ROBERT E. ALEXANDER, DONALD A. KOEPPEL, FRED VON DER AHE, LEONARD H. STRAUS, DRUMMOND WILDE, WILLIAM H. DYER, JR., ROBERT E. LAVERTY, WILLIAM F. RAMSEY, and RICHARD RALPHS, are now and were at all times from the time of its incorporation in about July 1968, members of the Board of Directors of BLUE CHIP STAMPS. At all of said times defendant, ROBERT E. ALEXANDER, represented the interests of defendant, ALEXANDER MARKETS, on said board; defendant, FRED VON DER AHE, represented the interests of defendant, VONS GROCERY CO., on said board; defendant, LEONARD H. STRAUS, represented the interests of defendant, THRIFTY DRUG STORES CO., INC., on said board; defendant, DRUMMOND WILDE, represented the interests of defendant, SAFEWAY STORES, INC., on said board; defendant, WILLIAM H. DYER, JR., represented the interests of defendant, LUCKY STORES, INC., on said board; defendant, ROBERT E. LAVERTY, represented the interests of defendant, THRIFTIMART, INC., on said board; defendant, RICHARD RALPHS, represented the interests of defendant, RALPHS GROCERY COMPANY, on said board; and defendant, JOHN R. NIVEN, represented the interests of defendant, PURITY STORES, INC., on said board.

VI

In connection with and in furtherance of and as an integral part of the illegal and fraudulent scheme herein alleged, defendants directly and indirectly, by the use of the means and instrumentalities of transportation and communication in interstate commerce and by the use of

the mails, engaged in acts, practices, courses of business and manipulative and deceptive devices, all constituting and operating as a fraud and deceit upon the plaintiffs as untrue and misleading statements of material facts and omission of material facts, which were intended to, and did, defraud plaintiffs.

In December, 1963, the United States of America, as plaintiff, filed in the United States District Court, Central Division of California, an action against Blue Chip Stamp Co. and nine of its twelve stockholders, including all of the corporations named as defendants herein except the defendant, Blue Chip Stamps, which was not then in existence, charging violations under the Sherman Anti-Trust Act, said action being entitled United States of America, plaintiff vs. Blue Chip Stamp Co., et al., defendants, bearing civil action No. 63-1552-F, which action is sometimes hereinafter referred to as the "Government Case."

As a result of said action, a Consent Final Judgment (sometimes herein referred to as "Consent Decree") was made and entered by the United States District Court on or about June 5, 1967, which, among other things, provided that the defendant corporations present to the Court for its approval a plan for the reorganization of Blue Chip Stamp Co. A true copy of said Consent Decree is attached hereto as Exhibit "A" hereof and incorporated herein.

Pursuant to said Consent Decree, said defendant corporation submitted to the Court a plan of reorganization of Blue Chip Stamp Co., which plan was thereafter approved by said Court and incorporated into said Final Consent Decree. A true copy of said plan of reorganization and order approving said plan is attached hereto with certain conditions as Exhibit "B" hereof and incorporated herein, and is sometimes hereinafter referred to as "The Plan."

The Plan required among other things the formation of a "new company," which was later named BLUE CHIP STAMPS, one of the defendants herein, and required the merger of defendant Blue Chip Stamp Co. into said BLUE CHIP STAMPS.

VII

Among the provisions of The Plan was the following:

"An offering of approximately 621,600 shares of its common stock would then be made by New Company (defendant BLUE CHIP STAMPS) to users of BLUE CHIP STAMPS (who issue stamps to their retail customers as a reward for patronage) other than users who are also shareholders of BLUE CHIP (such users to whom such offering is to be made are hereinafter referred to as "Users") on a pro rata basis determined by the quantity of stamp pads issued to Users during the period subsequent to March 1, 1964, and prior to a date to be determined which will be not more than ninety (90) days prior to the effective date of registration statement hereinafter referred to. The offering will be made in units consisting of three (3) shares of the common stock of New Company (defendant BLUE CHIP STAMPS) and one (1) One Hundred Dollars ($100.00) principal amount debenture for a cash consideration of One Hundred One Dollars ($101.00)."

VIII

Said Consent Decree further provided that in the event all of said 621,600 shares were not purchased by the Users the defendant, BLUE CHIP STAMPS, would be per-

mitted to sell the shares not so purchased at the then reasonable market value of said shares.

The above provisions of The Plan were included for the purpose of complying with the Court's direction that the defendants divest themselves of a total of about fifty-five percent (55%) of their holdings in the reorganization of the defendant, BLUE CHIP STAMP COMPANY, by its merger into BLUE CHIP STAMPS.

IX

Among the parties appearing in said Government case were the Attorney General of the State of California in behalf of Users other than Users who were also stockholders of BLUE CHIP STAMP COMPANY, and several users individually and in trade association.

All of said Users in this paragraph contended before the Court that they, in fact, owned an interest in the defendant, BLUE CHIP STAMP COMPANY, and the Twenty Million Dollars ($20,000,000) in profits it had accumulated during the five (5) years immediately prior thereto, and that in any decision of the said government case, the ownership of said users of an interest in the said defendant, BLUE CHIP STAMP COMPANY, and BLUE CHIP STAMPS should be decreed.

X

The claims and contentions by and on behalf of the users, as aforesaid, prompted the provisions of The Plan and the offering of three (3) shares of common stock and one (1) One Hundred Dollars ($100.00) principal amount debenture (hereinafter sometimes referred to as a "Unit") to the users for a cash consideration of One Hundred One Dollars ($101.00) which offering was a

bargain, was intended by the Court in the government case as a bargain, was recognized by the defendants herein as a bargain, and was intended by the United States of America, as plaintiff in the Government case and was, in fact, a bargain. It was the purpose and intent of the said Consent Decree and The Plan that the Users as described therein would benefit from the bargain purchase provided in the said Court Decree and Plan.

XI

The reasonable market value of the said Units at the time of the offering that was made pursuant to The Plan was, and still is, at least Three Hundred Fifteen Dollars ($315.00), of which Seventy-Five Dollars ($75.00) represented the reasonable market value of one (1) debenture and Eighty Dollars ($80.00) the reasonable market value of one (1) share of stock. The net bargain provided by said offering was, therefore, approximately $71.33 per share or $214.00 per unit.

XII

In compliance with said Consent Decree and The Plan, the defendant, BLUE CHIP STAMPS ("New Company") was formed in about July, 1968, and issued 621,000 [sic.] shares of stock to the stockholders of BLUE CHIP STAMPS COMPANY (of which approximately 560,000 shares went to the defendants herein); 27,600 shares were reserved for offering to certain of its employees; 10,400 [sic.] shares were reserved for issuance pursuant to its qualified Stock Option Plan; and an additional 621,000 [sic.] shares were earmarked for offering to the Users of Blue Chip Stamps, including plaintiffs, pursuant to The Plan as set forth above.

Under the said Consent Decree and The Plan plaintiffs, as Users, were entitled to purchase approximately 100,000 Units or 300,000 shares of the 621,600 shares of defendant, BLUE CHIP STAMPS. Said units, as hereinabove alleged, in fact, being offered at One Hundred One Dollars ($101.00) each when they were worth, and known by the defendants to be worth, Three Hundred Fifteen Dollars ($315.00) per unit.

Under the said Consent Decree and The Plan, all of the members of the class suing herein, who failed to purchase said Units by reason of the facts set forth herein, were entitled to purchase the said 100,000 Units. That by not purchasing said Units at said price of One Hundred One Dollars ($101.00) per Unit, they were damaged in the amount of Twenty-One Million Four Hundred Thousand Dollars ($21,400,000.00).

XIII

As part of and pursuant to the said Consent Decree and The Plan, the defendants used the mails and other instrumentalities of inter-state commerce and caused defendant, BLUE CHIP STAMPS, to make the offering described above to the Users, including plaintiffs, of securities in Units described above through a certain Prospectus dated August 29, 1968 (hereinafter sometimes referred to as the Negative Prospectus), prepared and transmitted through the United States mail and other instrumentalities of inter-state commerce by the defendants in the name of the defendant, BLUE CHIP STAMPS. A true copy of said Prospectus is annexed hereto as Exhibit "C" and made a part hereof. Said Negative Prospectus and accompanying documents required the Users, including plaintiffs, to exercise their rights on or before November 29, 1968. At no time after said offering and neither before

nor after November 29, 1968, did defendants disclose to plaintiffs the true facts with respect to the value of said securities as herein set forth.

XIV

Defendants and each of them desired that the Users fail to exercise their rights under said Consent Decree, Plan and Prospectus to purchase the shares to which they were entitled, and, pursuant to said desire, said defendants, and each of them, conspired among themselves to accomplish said purpose, and said defendants, and each of them, did accomplish said purpose, by preparing and using said Prospectus as a manipulative and deceptive device and contrivance calculated to mislead and dissuade users not knowledgeable of the true value of said shares from purchasing said shares. That said Prospectus was employed as a device, scheme, and artifice to defraud the users, and said defendants, and each of them, were thereby engaged in an act, practice and course of business which operated and was intended to operate as a fraud and deceit upon the users in connection with the purchase of said shares. More specifically, said Prospectus, prepared as aforesaid, provided in part as follows:

(a) Commencing on page one in the fifth line thereof, defendants called attention to five "Items of Special Interests" appearing on page 2, all of which were negative and designed to mislead the Users, including plaintiff, as to the true value of the stock and thereby to dissuade them from purchasing, as hereafter set forth. Said "Items of Special Interests" were as follows:

"Prospective purchasers of securities offered herein shall particularly note the following items, each of

which will be or may be adverse and which is discussed later in this Prospectus in greater detail:

(1) Net income from the current fiscal year will be adversely affected by payments aggregating Seven Million Nine Hundred Twenty-Eight Thousand ($7,928,000.00) Dollars made since March 2, 1968, in settlement of claims against the Company (See "Statement of Income and Retained Earnings" and "Litigation").

(2) Net income would be adversely affected by a substantial decrease in the use of Company's trading stamp service (See "Business — General").

(3) Net income would be adversely affected by a sale of one-third of the Company's trading stamp business in California; approximately ninety-nine percent (99%) of the Company's stamp service income is derived from its operations in California (See "Business — Effects of Consent Decree on Company's Operations").

(4) Claims or Causes of Action (as defined) against the Company, including prayers for treble damages, now aggregate approximately $29,000,000. The Company has agreed to indemnify Blue Chip Stamp Company and the present and former officers, directors and stockholders of the Company or Blue Chip Stamp Company from any liability or expenses arising out of certain claims asserted against any of them (See "Litigation").

(5) All but two of the present directors are precluded until June 5, 1977, from serving as directors after the first meeting of the Company's stockholders following the offer herein so long as they are employed by specified companies (See "Management").

Said five "Items of Special Interest" were thereafter referred to individually or collectively approximately fifteen (15) times. Constant reference to said items was intended to, and did cause plaintiffs to be misled as to the true value of said shares. When the defendants themselves did, one year later, offer their own shares to the public at Ninety Dollars ($90.00) per share (allowing for a five-to-one stock split in the interim) by a Prospectus, a copy of which is attached hereto as Exhibit "D" and made a part hereof by reference (hereinafter referred to as "The Positive Prospectus"), no negative "Items of Special Interest" were set forth, nor was there reference to such items, although (to the extent they were relevant at the time of the Negative Prospectus) they were relevant at the time of the Positive Prospectus.

(b) Commencing in the second paragraph on page one of the Negative Prospectus there was reference to "Claims or Causes of Action" against the defendant, BLUE CHIP STAMPS, in the amount of Twenty-Nine Million Dollars ($29,000,000) and reference to said "Claims or Causes of Action" was thereafter repeatedly and unnecessarily made. Such constant reference to said claims was made with the intention to, and it did, cause the plaintiffs to be misled as to the true value of said shares. The Twenty-Nine Million Dollars ($29,000,000) amount of said claims was repeated and emphasized in said Negative Prospectus. Defendants knew that said claims were in fact of insignificant merit and were settled shortly after November 29, 1968, for less than One Million Dollars ($1,000,000.00).

(c) The "Litigation" section of the Negative Prospectus devotes three (3) printed pages to a recount of suits already settled with emphasis on the size of the claims, complexity of the matters, and a de-emphasis of the fact that they had already been settled. The Posi-

tive Prospectus one year later refers to none of these cases by name and covers all of the settlements in two sentences.

(d) No underwriters were employed, no salesmen were used, and the offering was quietly accomplished by one mailing or hand delivery (unless the user filled out an information form requiring time and effort), and one newspaper advertisement in several California newspapers. Plaintiffs had no information as to the number of shares to which they were entitled unless they assembled data for defendants. However, defendants knew or should have known the number of shares each plaintiff was eligible to receive, but failed to disclose this information to plaintiffs.

(e) Plaintiffs were required to purchase their shares on or before November 29, 1968, or lose their rights.

(f) No information concerning the value of the stock was ever supplied to the plaintiffs by defendants except that set forth in the Negative Prospectus.

(g) The Negative Prospectus on Page 10 emphasized the possibility of losing customers and the obvious fact that defendant, BLUE CHIP STAMPS, had no assurance of continued patronage of its customers. The Negative Prospectus de-emphasized the fact that BLUE CHIP STAMPS' patronage undoubtedly would increase because it had been prohibited by the Consent Decree from preventing customers from giving extra stamps as a premium. BLUE CHIP STAMPS' business and profits did, in fact, increase substantially since the date of the Negative Prospectus.

(h) The Negative Prospectus on Page 12 states that the company estimates that Ninety-seven and one-half per cent (97½%) of all stamps issued will be redeemed.

In fact, less than ninety per cent (90%) of all stamps historically are redeemed. Based upon its sales of Ninety Million Dollars ($90,000,000.00) per year, or more, this misrepresentation resulted in an understatement of earnings on stamp sales for the year prior to the offering of Six Million Dollars ($6,000,000) or about eighty per cent (80%).

(i) The Negative Prospectus referred in several places to certain allegedly disadvantageous provisions of the Consent Decree or Plan in a negative manner designed to dissuade Users from exercising their rights under the said offering, and said Prospectus concealed from the Users, including plaintiffs, the fact that said Consent Decree would be highly beneficial to BLUE CHIP STAMPS in that its provisions were certain to, and did, force practically all competitors out of the State of California and that BLUE CHIP STAMPS and buyers of its Units would accordingly benefit thereby.

XV

The entire offering, as set forth in the Negative Prospectus, including but not limited to the provisions in said offering, as set forth in subparagraphs (a), (b), (c), (g), (h) and (i) of the last preceding paragraph of this pleading, resulted in the misrepresentation of material facts and the withholding of material information and was seriously misleading and was intended by defendants to be misleading in the light of all of the facts. The said offering did, in fact, mislead the plaintiffs in that they did not realize the real value of the Units being offered to them.

XVI

Relying upon said representations contained in the Prospectus, the plaintiffs, and each of them, were induced and did, in fact, not accept said offer and purchase said Units. Over 60% of the Users who purchased said Units had information outside and independent of said Negative Prospectus.

XVII

Under the said Consent Decree and The Plan, all of the members of the class suing herein, who failed to purchase said Units by reason of the facts set forth herein, were entitled to purchase the said Three Hundred Thousand (300,000) shares; that by not purchasing said shares at said price of Eight Dollars and Sixty-Seven Cents ($8.67) per share, they were damaged in the amount of Twenty-One Million Four Hundred Thousand Dollars ($21,400,000).

XVIII

Each of the defendants deliberately acted as hereinabove alleged for the purpose of benefiting themselves at the expense and to the damage of plaintiffs and each of them, and were thereby guilty of oppression, fraud and malice, whereby plaintiffs, and each of them, in addition to the actual damages hereinabove alleged, should recover damages for the sake of example and by way of punishing the defendants, and each of them.

SECOND CAUSE

I

Plaintiffs repeat and reallege each and all of the allegations of the First Cause with the same force and effect as if the same were here set forth in full.

II

The aforesaid misleading and false representations were made by defendants with the intent to induce plaintiffs to refrain from purchasing said offered shares of New Company in order that defendants would materially benefit from such failure of purchase on the part of prospective purchasers.

III

The aforesaid representations made by defendants were, at the time they were made and subsequent thereto, known to the defendants to be false and misleading.

IV

Plaintiffs, and each of them, at the time said representations were made and subsequent thereto, were ignorant of their false and misleading nature and believed them to be true and accurate. In reasonable reliance thereon, plaintiffs were induced to and did in fact refrain from accepting said offer; had plaintiffs known the true facts they would have accepted said offer and benefited from said "bargain sale."

V

By reason of said false and misleading representations by the defendants, and plaintiffs' reliance thereon, plaintiffs have been damaged in the amount of $21,400,000.

THIRD CAUSE

I

Plaintiffs repeat and reallege each and all of the allegations of their First Cause and Paragraph II of their Second Cause with the same force and effect as if the same were here set forth in full.

II

When defendants made said false and misleading representations, they had no sufficient or reasonable ground for believing them to be true.

III

Plaintiffs, and each of them, at the time said representations were made and subsequent thereto, were ignorant of their false and misleading nature and believed them to be true and accurate. In reasonable reliance thereon, plaintiffs were induced to and did in fact refrain from accepting said offer; had plaintiffs known the true facts they would have accepted said offer and benefited from said "bargain sale."

IV

By reason of said false and misleading representations by the defendants, and plaintiffs' reliance thereon, plaintiffs have been damaged in the amount of $21,400,000.

FOURTH CAUSE

I

Plaintiffs repeat and reallege each and every allegation of their First Cause with the same force and effect as if the same were here set forth in full.

II

The plaintiffs, and each of them, were the express intended beneficiaries of said final consent judgment entered into between the plaintiffs and defendants of [sic.] said prior proceedings and approved by the Court.

III

The aforesaid final consent judgment stated that defendants planned a reorganization of the BLUE CHIP STAMP COMPANY including a method of divestiture of defendants' holdings in said company which was to be conducted and effected in good faith by defendants.

IV

Defendants' aforesaid false and misleading misrepresentations were a violation of the Court imposed duty of good faith and constituted a breach of said Final Consent Judgment.

V

As a direct and proximate result of defendants' breach of said Final Consent Judgment, plaintiffs were damaged in the amount of Twenty-One Million Four Hundred Thousand ($21,400,000.00) Dollars.

WHEREFORE, plaintiffs pray judgment against the defendants as follows:

1. For damages in the amount of Twenty-One Million Four Hundred Thousand ($21,400,000.00) Dollars;

2. The right to purchase shares of stock or units of Blue Chip Stamps on the price and terms offered in the 1968 offering;

3. For exemplary damages in the amount of Twenty-Five Million ($25,000,000.00) Dollars;

4. For interest;

5. For attorneys' fees for the representation of plaintiffs herein;

6. For cost of suit; and

7. For all proper relief.

Dated January 26, 1971.

J. J. BRANDLIN, JAMES E. RYAN
and RAY E. MCALLISTER

By /s/ J. J. BRANDLIN
J. J. BRANDLIN

Jury trial requested.

J. J. BRANDLIN, JAMES E. RYAN
and RAY E. MCALLISTER

By /s/ J. J. BRANDLIN
J. J. BRANDLIN

[Exhibit "A" to Amended Complaint]

[Filed June 5, 1967]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA, *Plaintiff*, v. BLUE CHIP STAMP COMPANY; ALEXANDER'S MARKETS; LUCKY STORES, INC.; MARKET BASKET; PURITY STORES, INC.; RALPHS GROCERY COMPANY; SAFEWAY STORES, INCORPORATED; THRIFTIMART, INC.; THIFTY DRUG STORES CO., INC.; and VON'S GROCERY CO. *Defendants.*	CIVIL ACTION NO. 63-1552-F ENTERED:

FINAL JUDGMENT

Plaintiff, United States of America, having filed its complaint in the United States District Court for the Southern District of California, Central Division, on December 26, 1963; each of the defendants having appeared and filed its answer denying the substantive allegations thereof; and the plaintiff and the defendants, by their attorneys, having severally consented to the entry of this Final Judgment without trial or adjudication of any issue of fact or law herein, without the taking of any evidence, and without this Final Judgment constituting any evidence or admission by any party in respect to any issue of fact or law herein;

NOW, THEREFORE, before the taking of any testimony and without trial or adjudication of any issue of fact or law herein and upon the consent of the parties hereto, it is hereby

ORDERED, ADJUDGED AND DECREED as follows:

I.

This Court has jurisdiction of the subject matter of this action and of the parties consenting hereto. The complaint states claims for relief against the defendants under Sections 1 and 2 of the Act of Congress of July 2, 1890, as amended, entitled "An Act to protect trade and commerce against unlawful restraint and monopolies," commonly known as the Sherman Act.

II.

For the purposes of this Final Judgment:

(A) "Person" shall mean an individual, partnership, firm, association, corporation or other legal or business entity;

(B) "Trading stamp business" shall mean the distribution for compensation, of trading stamps to any person for issuance to its customers, employees or others, and the redemption of said stamps for merchandise or money;

(C) "Trading stamp company" shall mean a person engaged in the trading stamp business;

(D) "Capital Assets" shall mean land, buildings, leasehold improvements, furniture and fixtures, warehouse equipment, delivery equipment and automobiles.

(E) "Southern California" is that part of California south of the line formed by the northern boundaries

of San Luis Obispo, Kern and San Bernardino Counties.

(F) "New Blue Chip" shall mean a purchaser of, or any other successor to, Blue Chip's trading stamp business pursuant to Section VI herein or a reorganized company pursuant to Sections V or VII herein.

(G) "Reorganization" shall mean a reconstitution of the stock structure of Blue Chip and shall include the creation of a new company to which the assets and liabilities of Blue Chip are transferred, or into which Blue Chip is consolidated or merged.

III.

The provisions of this Final Judgment applicable to any defendant and any person agreeing to be bound shall also apply to each of its subsidiaries, successors, assigns, officers, directors, and employees, and to all other persons in active concert or participation with such defendant or persons who shall have received actual notice of this Final Judgment by personal service or otherwise, but shall not apply to transactions solely between or among such defendant or person and its officers, directors, employees, parent company, subsidiaries and affiliates, or any of them.

IV.

Each of the retailer defendants is enjoined and restrained from:

(A) Combining or conspiring to restrain trade in, or monopolizing or attempting to monopolize the trading stamp business in the State of California; or carrying out, directly or indirectly, any such combina-

tion, conspiracy, attempt to monopolize or monopolization;

(B) Entering into any contract, agreement or understanding with any other user of trading stamps in the same line of business:

(i) To refrain, in the State of California or in particular areas thereof, from using trading stamp services entirely or from using the trading stamp services of any particular person or persons; or

(ii) To limit the rate of issue employed in distributing trading stamps to their respective customers in such state;

(C) Acting jointly with any other user of trading stamp services in the same line of business to organize or acquire a trading stamp company to operate in the State of California except as provided in Sections V, VI or VII hereof.

Provided, that this Section IV shall not apply to a retailer defendant, acting independently: (i) in obtaining or entering into any contract to obtain trading stamp services from any trading stamp company; or (ii) when such defendant is engaged in the trading stamp business (either directly or through a subsidiary or affiliate), in furnishing or entering into any contract to furnish trading stamp services to any person, and provided further that this Section IV shall not apply to the provision of trading stamp services by any trading stamp company which is not named as a defendant herein.

V.

Blue Chip is ordered and directed to present to the Court, within 60 days following the date of entry of this Final Judgment, a plan for the reorganization of Blue Chip Stamp Company. The plan shall be substantially in accordance with either of the plans heretofore furnished to plaintiff. Upon approval of the plan by the Court, Blue Chip shall make bona fide and diligent efforts to reorganize the company pursuant to the said plan. If at any time, in plaintiff's judgment, such efforts are not being made, plaintiff may apply to the Court for an order directing that this Section V shall no longer apply. In the event that such order issues, Blue Chip shall be required to divest pursuant to Section VI or to reorganize pursuant to Section VII hereof.

VI.

(A) In the event that Section V becomes inapplicable Blue Chip is ordered and directed to divest, with all due diligence, within 15 months from the date upon which Section V shall no longer apply, all of the company's capital assets, goodwill, and the right to the service mark and to the use of the name "Blue Chip," and, following such divestiture, to discontinue issuance of trading stamps, cease doing business as an operating company and thereafter to wind up its affairs and dissolve consistent with the applicable laws of the State of California.

The divestiture shall be made upon the following terms and conditions:

(1) The purchaser or successor to Blue Chip's trading stamp business shall agree to enter its appearance in this proceeding and shall furnish its written consent

to be bound by the applicable provisions of this Final Judgment.

(2) The purchaser or successor shall agree to engage in the trading stamp business in California for a reasonable period of time.

(3) The purchaser or successor shall contract with Blue Chip on mutually satisfactory terms for the redemption of all outstanding trading stamps theretofore issued by Blue Chip and said contract shall insure discharge of Blue Chip's redemption obligations and shall require the purchaser or successor to redeem its stamps interchangeably with the trading stamps theretofore issued by Blue Chip.

(4) The purchaser or successor shall assume such other obligations as Blue Chip and it may agree and Blue Chip shall transfer such cash, securities or other assets as it and Blue Chip may agree.

The said divestiture may be made by a sale of assets, a sale of stock of a corporation which controls the assets, or in any other manner not otherwise inconsistent with the terms of this decree. Provided, that in the event that all of the stockholders of Blue Chip dispose of their stock to a purchaser or successor said disposal shall be regarded as a divestiture by Blue Chip for the purposes of this Final Judgment.

(B) Blue Chip shall make known the availability of the assets for sale. Blue Chip shall furnish to bona fide prospective purchasers making inquiry to it, such information as is reasonably necessary for them to proceed with negotiations looking toward the ultimate acquisition of the assets to be divested and shall furnish plaintiff concurrently with the name of any such prospective purchaser. Blue Chip shall render quarterly reports to the

Assistant Attorney General in charge of the Antitrust Division concerning its efforts to effectuate the divestiture required, the first such report to be rendered within 30 days of the date that Section V shall no longer apply.

(C) At least 30 days in advance of the closing date specified in any contract for sale, Blue Chip shall supply plaintiff with the name of the proposed purchaser, the purchase contract, and with such other information in its possession as is material to the proposed sale. If plaintiff requests, the said closing date shall be extended to the extent necessary to afford plaintiff 60 days between the date of the receipt of the said information and the closing date. Blue Chip may close any sale unless plaintiff serves upon Blue Chip, at least 15 days in advance of the closing date, written notice that plaintiff objects thereto. If plaintiff serves such written notice with respect to a sale to a purchaser engaged in the trading stamp business, or a purchaser engaged in the operation of retail food stores in the State of California, such sale shall not be closed. If plaintiff serves such written notice with respect to any other sale, the sale shall not be closed unless approved by the Court. The time period set forth in Section VI(A) above shall be tolled during the pendency of any extension or of any proceeding under this Section VI(C).

(D) The divestiture ordered and directed by Section VI(A) of this Final Judgment shall be made in good faith and shall be absolute and unqualified except as follows:

(1) Nothing herein contained shall be deemed to prohibit Blue Chip from retaining, accepting and enforcing a bona fide lien, mortgage, deed of trust or any other form of security reasonably necessary to secure full payment of the price at which the divested property

is disposed of or sold or to secure any other obligation of a purchaser or successor, provided that if Blue Chip shall regain ownership of or control over the property divested as a result of any lien, mortgage, deed of trust, or other undertaking Blue Chip shall be required to terminate such ownership or control within 18 months thereafter.

(2) In the event that Blue Chip receives, as a result of any divestiture hereunder, stock of a corporation which controls the divested assets:

(a) Blue Chip shall be required: (i) to dispose of any amount of such stock in excess of 10% of the outstanding common stock of such corporation within one year following the date of receipt thereof or within 22 months following the date Section V shall no longer apply, whichever is earlier, provided that in no event shall such disposal be required within less than three months following the date of receipt of such excess; and (ii) to dispose of the balance of such stock no later than the date of final distribution in liquidation; and (iii) pending disposal, to cause any voting rights of such stock to be exercised by a financial institution or other third party who is acceptable to plaintiff or approved by the Court; and

(b) In the event Blue Chip distributes such stock to its shareholders, no distribution shall be made pursuant to which any Blue Chip shareholder will retain more than 1% of the outstanding common stock of the said corporation unless the plan of distribution is acceptable to plaintiff or approved by the Court.

VII.

In the event that Section V becomes inapplicable, Blue Chip may also enter into a reorganization pursuant to a plan for the reorganization of Blue Chip Stamp Company acceptable to the Court. The plan shall be substantially in accordance with either of the plans heretofore furnished to plaintiff or in accordance with any other plan acceptable to Blue Chip and to plaintiff.

VIII.

(A) Blue Chip is ordered and directed to continue its trading stamp business and to continue to promote its trading stamp service until completion of the reorganization set forth in Sections V or VII above or until the divestiture set forth in Section VI above. Until such reorganization or divestiture Blue Chip is enjoined and restrained from:

(1) Refusing to provide a trading stamp service or imposing any limitation on such service to any person because of: (i) the presence in the same locality of any establishment operated by another person using Blue Chip's stamp service; (ii) the rate of issue employed by such person in offering Blue Chip's or any other person's stamps; or (iii) the use by such person of any other trading stamp service;

(2) Coercing or compelling any person: (i) to limit the rate of issue employed in offering Blue Chip's or any other person's stamps; or (ii) to refrain from using any other trading stamp service.

(B) New Blue Chip, in the event that it is not already a party hereto, shall enter its appearance in this proceeding and give its consent to be bound by the applicable

provisions of this Final Judgment. A purchaser of assets pursuant to Section IX hereof shall enter its appearance in this proceeding and give its consent to be bound by the applicable provisions of this Final Judgment. New Blue Chip and such purchaser are enjoined and restrained from:

(1) Refusing to provide a trading stamp service or imposing any limitation on such service to any person because of: (i) the presence in the same locality of any establishment operated by another person using the company's stamp service; (ii) the rate of issue employed by such person in offering the company's or any other person's stamps; or (iii) the use by such person of any other trading stamp service;

(2) Coercing or compelling any person (i) to limit the rate of issue employed in offering the company's or any other person's stamps; or (ii) to refrain from using any other trading stamp service;

(3) Having as an officer or employee any person who, while holding such position, also serves as an officer, director, or employee of any person using trading stamp services, or from having, for a period of ten years following the date of entry of this Final Judgment, as a director, any person who, while holding such position, also serves as an officer, director or employee of any person who was a Blue Chip stockholder in 1956 or 1957.

(C) Each of the retailer defendants is enjoined and restrained for a period of ten years following the date of entry of this Final Judgment:

(1) From having as an officer, director, or employee any person who, while holding such position, also serves as an officer, director or employee of New Blue Chip; or

(2) From exercising any right which it might acquire to vote for the election of any o icial of New Blue Chip; *provided* that a retailer defendant may cause such right to be exercised independently by a financial institution or other third party acceptable to plaintiff or approved by the Court.

Each retailer defendant shall be free to utilize or not utilize the trading stamp services of Blue Chip and New Blue Chip and, except as provided in this Section VIII(C), to exercise the same rights and privileges available to every other user of the stamp services of Blue Chip or New Blue Chip.

IX.

New Blue Chip shall, within 30 months after the date of completion of the reorganization under Sections V or VII above or the divestiture under Section VI above present for the approval of the Court a plan which shall include the following terms:

(1) New Blue Chip shall offer for sale one-third of its then existing trading stamp business in the State of California. The business to be offered for sale shall be located within a contiguous geographic area within Southern California.

(2) A purchaser shall be permitted to acquire the business only upon the condition that it enter its appearance in this proceeding and agree: (i) to be bound by the applicable provisions of Section VIII(B), IX, X and XI of this Final Judgment and (ii) to engage in the trading stamp business for a reasonable period of time. A purchaser shall have the right, if it so elects, to redeem New Blue Chip trading stamps within the contiguous area for the period of one year following

the consummation of the sale. Plaintiff shall have the right to object to a purchaser in the same manner as it may object to a purchaser under Section VI(C) above.

(3) New Blue Chip shall not, during the period of one year following the consummation of the sale: (i) knowingly allow any person operating retail establishments in the contiguous area to issue New Blue Chip stamps to customers of such establishments; or (ii) furnish New Blue Chip stamps to any person with knowledge that the stamps will be issued to customers at any retail establishment in the contiguous area; or (iii) otherwise engage in the trading stamp business in the contiguous area except that, if the purchaser does not elect to redeem New Blue Chip stamps or if the purchaser fails to perform in accordance with his redemption obligations, New Blue Chip shall have the right to redeem its outstanding stamps in said area. Following the said one year period, New Blue Chip shall offer its trading stamp service in the contiguous area.

X.

For the purpose of securing compliance with this Judgment and for no other purpose:

(A) Any duly authorized representative or representatives of the Department of Justice shall, upon written request by the Attorney General or the Assistant Attorney General in charge of the Antitrust Division and on reasonable notice to any defendant, New Blue Chip, or any purchaser under Section IX hereof, made to its principal office, and subject to any legally recognized privilege, be permitted:

(1) Access during the office hours to all books, ledgers, accounts, correspondence, memoranda, and other records and documents in the possession or under

the control of any person specified in this Section X(A) related to any matters contained in this Judgment;

(2) Subject to the reasonable convenience of, and without restraint or interference from, any person specified in this Section X(A), to interview officers or employees of any such person who may have counsel present, regarding any such matters.

(B) Upon written request of the Attorney General or the Assistant Attorney General in charge of the Antitrust Division, any defendant, New Blue Chip or a purchaser under Section IX shall submit such additional reports in writing with respect to the matters contained in this Final Judgment as may be requested. Provided that no information obtained by the means provided for in this Section X shall be divulged by any representative of the Department of Justice to any person other than a duly authorized representative of the Executive Branch of the United States, except in the course of legal proceedings to which the United States is a party for the purpose of securing compliance with this Final Judgment or as otherwise required by law.

XI.

Jurisdiction is retained for the purpose of enabling any of the parties to this Final Judgment to apply to this Court at any time for such further orders and direction as may be necessary or appropriate for construction, carrying out, modification, termination or enforcement of or compliance with the provisions of this Final Judgment and for the punishment of violations thereof.

Dated: June 5, 1967

United States District Judge

[Exhibit "B" to Amended Complaint]

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[Filed October 13, 1967]

UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA, *Plaintiff,* vs. BLUE CHIP STAMP COMPANY; ALEXANDER'S MARKETS; LUCKY STORES, INC.; MARKET BASKET; PURITY STORES, INC.; RALPHS GROCERY COMPANY; SAFEWAY STORES, INCORPORATED; THRIFTIMART, INC.; THRIFTY DRUG STORES CO., INC.; and VON'S GROCERY CO., *Defendants.*	CIVIL ACTION NO. 63-1552-F REVISED ORDER APPROVING PLAN OF REORGANIZATION WITH CERTAIN CONDITIONS

The defendants having lodged with the Court on August 3, 1967 a Plan of Reorganization (copy of which is attached hereto as Exhibit A) pursuant to Paragraph V of the Final Judgment entered herein on June 5, 1967, and the matter having come before the Court on defendants' motion for approval of the said Plan of Reorganization, which said motion was noticed for hearing on August 21, 1967 and thereafter continued to August 29, 1967, and notice of said hearing and of the continuance thereof having been given to the parties hereto and to the attorneys for the various persons who have appeared in this matter as amicus curiae or otherwise, and the Court, having heard the arguments and

considered the same, and having determined that the said Plan of Reorganization is substantially in accordance with "Reorganization Plan 'B' For Blue Chip Stamp Company" lodged with this Court on April 28, 1967 and filed June 5, 1967, now Orders as follows:

1. The Court finds that the said Plan of Reorganization of Blue Chip Stamp Company is substantially in accordance with Reorganization Plan "B" for Blue Chip Stamp Company lodged on April 28, 1967 and filed June 5, 1967.

2. The Court approves the said Plan of Reorganization subject to the following conditions:

(a) Except to the extent that restraints are imposed on the retailer defendants by the Final Judgment or the Plan of Reorganization with respect to the purchase of additional shares by any of them, or are imposed by the purchase agreements with management employees or by the Securities Act of 1933 on shares to be subject to a qualified stock option plan, there shall be no restraint upon free alienation of any of the shares to be issued.

To enable the retailer defendants and the other present stockholders of Blue Chip Stamp Company to sell any or all of their shares in compliance with the Securities Act of 1933, New Company shall register under that Act the shares of such stockholders at such time or times as may be requested by any of them, but in no event shall New Company be obligated to so register more than one time in any calendar year. New Company shall not be obligated to pay any of the expenses of such registrations nor to keep any registration referred to in this subsection (a) effective for longer than six months; provided, however, that New Company shall be obligated to pay expenses (other than underwriting fees) for one registration if the

request for the same shall have been made during the three months period commencing January 1, 1969 and for one additional registration if the request for the same shall have been made during the three months period commencing January 1, 1970. Within ten days of receipt of any written request from such a stockholder to register its shares, New Company shall give notice thereof to all other of said stockholders and offer them an opportunity to join in the registration so requested. The Company shall file such Registration Statement with the Securities and Exchange Commission on or before May 31 of that year.

With the exception of the two registrations which may be requested in the two three-month periods referred to above, all expenses, direct and indirect, of registrations, if any, requested by such a stockholder or stockholders shall be paid for by it or them, and within ten days of receipt of such a written request from such a stockholder to register its shares, New Company shall give notice thereof to all other such stockholders and offer them an opportunity to join in and share the expense of the registration so requested.

If at any time prior to June 5, 1977, as a result of purchases by New Company of its shares, the aggregate of shares beneficially owned by the retailer defendants exceeds 43% of (a) the Company's outstanding shares and (b) the Company's shares reserved for issuance pursuant to a qualified stock option plan, the Company shall present to the Court within 60 days a plan for disposing of a number of shares sufficient to reduce the percentage of shares beneficially owned by the retailer defendants below such 43%.

(b) Within 60 days after the election of the Permanent Directors of the New Company, the New Company shall present to the Court a plan for the disposition of all unsubscribed shares.

(c) Approval of the Plan of Reorganization does not constitute a finding or any expression of opinion with respect to California law, or as to whether the provisions of said Plan with respect to indemnification are or will be valid or enforceable.

DATED: October 13, 1967.

/s/ WARREN J. FERGUSON
United States District Judge

APPROVED AS TO FORM:

STANLEY E. DISNEY
LAWRENCE W. SOMERVILLE

By /s/ STANLEY E. DISNEY
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UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA, *Plaintiff,* vs. BLUE CHIP STAMP COMPANY; ALEXANDER'S MARKETS; LUCKY STORES, INC.; MARKET BASKET; PURITY STORES, INC.; RALPHS GROCERY COMPANY; SAFEWAY STORES, INCORPORATED; THRIFTIMART, INC.; THRIFTY DRUG STORES CO., INC.; and VON'S GROCERY CO., *Defendants.*	CIVIL ACTION NO. 63-1552-F PLAN OF REORGANIZATION OF BLUE CHIP STAMP COMPANY SUBMITTED PURSUANT TO SECTION V OF FINAL JUDGMENT ENTERED JUNE 5, 1967

I.
GENERAL STATEMENT OF PLAN OF REORGANIZATION

Pursuant to the decree entered by the United States District Court (the "Court") on June 5, 1967 (the "Decree"), Blue Chip Stamp Company, a California corporation ("Blue Chip"), has developed the plan of reorganization hereinafter set forth (herein the "Plan").

The Plan contemplates the formation of a new California corporation (herein "New Company") with an authorized capitalization of 1,400,000 shares of Common Stock, par value 33⅓ cents per share, the issuance of a single share of its stock for cash to Blue Chip, the merger of Blue Chip into it with the result that each holder of Blue Chip stock shall receive 1,200 shares of the Common

Stock of New Company for each Blue Chip share held (of whichever class). This will result in there being outstanding (assuming no Blue Chip shareholders dissent) 621,600 shares of New Company, all owned by the present shareholders of Blue Chip. Prior to the merger the stockholders of Blue Chip will make a capital contribution in the aggregate amount of $155,400 in cash to Blue Chip. An offering of approximately 621,600 shares of its Common Stock will then be made by New Company to users of Blue Chip stamps (who issue stamps to their retail customers as a reward for patronage) other than users who are also shareholders of Blue Chip (such users to whom such offering is to be made are hereinafter referred to as "Users") on a prorata basis determined by the quantity of stamp pads issued to Users during the period subsequent to March 1, 1964 and prior to a date to be determined which will be not more than 90 days prior to the effective date of the registration statement hereinafter referred to. The offering will be made in units consisting of three shares of the Common Stock of New Company and one $100 principal amount debenture for a cash consideration of $101. New Company will also adopt a qualified stock option plan and will grant options pursuant thereto to key employees covering an aggregate of 110,400 shares of its Common Stock. New Company will also offer to sell 27,600 shares to key executive employees at a price of 33⅓ cents per share. The steps taken pursuant to the Plan will be substantially in accordance with those set forth in Sections II and III below.

II.
VARIOUS STEPS OF THE PLAN

A. Formation of New Company.

A California corporation will be formed with an authorized capitalization of 1,400,000 shares of Common Stock of the par value of 33⅓ cents per share. The articles of

incorporation will provide for three incorporators who will be the first directors.

After the filing of the articles of incorporation with the Secretary of State of the State of California, the incorporators will hold an organization meeting adopting by-laws, stock certificates, seal, providing for a principal office and various other ministerial matters. In addition the first directors will authorize the filing of an application for permit with the Commissioner of Corporations of the State of California (the "Commissioner") to permit the sale and issuance of one share of its stock to Blue Chip and the sale of such share in accordance therewith. Temporary officers will be elected.

The application for permit will be filed with the Commissioner and a permit obtained as promptly as possible thereafter. A share will then be sold to Blue Chip for $1. Blue Chip, as the sole shareholder of New Company, will then amend the by-laws to provide for a board of 11 directors. Immediately thereafter the first directors will tender their resignations and elect 11 temporary directors, all of whom will be the present directors of Blue Chip. The first directors will also elect as officers of New Company the present officers of Blue Chip, each holding the respective office that he holds in Blue Chip. Following the close of the subscription offering to Users, there shall be a meeting of the shareholders of New Company for the purpose of electing a new board of directors (the "Permanent Directors").

B. Merger of Blue Chip into New Company.

After the first share of New Company is issued, Blue Chip and New Company will enter into an agreement of merger which will provide for the issuance, upon the merger, of 1,200 shares of the Common Stock of New Company for each share of Blue Chip of either class then outstanding. New Company will, expressly, and by operation of law under the California statutes governing statutory mergers, acquire all the assets of Blue Chip. In consideration for such transfer of assets, New Company will assume all liabilities of Blue Chip arising out of its organization and operations prior to the date the Decree becomes final and not subject to appeal, including, without limitation, those existing by virtue of antitrust claims against Blue Chip, its past and present officers, directors and shareholders, by virtue of Blue Chip's organization and operations and liabilities of Blue Chip, its officers, directors and shareholders arising from carrying out this plan of reorganization. A special shareholders' meeting of Blue Chip will be called and noticed, which notice shall be accompanied by a statement of the terms of the proposed merger and also of the contemplated offering to management personnel and to Users. The special meeting of Blue Chip shareholders will be held approving the merger and, concurrently with this meeting Blue Chip, as the sole shareholder of New Company, will approve the merger by written consent. Notice will then be mailed to all shareholders of both corporations of the approval of the merger, thus starting the statutory period within which a dissenter may give notice of his dissent.

Immediately prior to the effectiveness of the registration statement concerning the offering to Users, the merger agreement will be filed with the Secretary of State of the State of California, thus effecting the merger. Each of such defendants shall, prior to the shareholder meeting for the election of Permanent Directors, deliver its shares to a separate and independent trustee acceptable to the Department of Justice or the Court. Such defendants may sell any of their shares at any time, but are prohibited from purchasing any additional shares for a period of ten years.

C. Offering to Users.

1. California Commissioner of Corporations

New Company will file an application with the Commissioner of Corporations of the State of California for a permit authorizing it to sell, in accordance with the terms of offering set forth below, to the Users units consisting of three shares of its Common Stock combined with one $100 principal amount debenture for a cash price of $101.

2. Securities and Exchange Commission.

New Company will prepare and file a registration statement on Form S-1 under the Securities Act of 1933 with the Securities and Exchange Commission (the "SEC") covering the offering to Users. It is contemplated that there will be a prefiling conference with the SEC and a request for expeditious examination of the registration statement and the issuance of a letter of comments thereon. As soon as practicable after the comments are received, an appropriate amendment or amendments to the registration statement will be filed in response thereto. The registration statement relating to the offering will be declared effective and the indenture, pursuant to which the debentures will be issued, will be qualified under the Trust Indenture Act of 1939.

3. The Units.

Each unit shall consist of three shares of the Common Stock of New Company and one $100 principal amount debenture. The debentures shall mature ten years after their date, shall bear interest, payable quarterly, at 6% or at one-half per cent above the prime rate in effect in Los Angeles on the date the registration statement is initially filed with the Securities and Exchange Commission, whichever is higher, shall be subordinated to claims or causes of action, including, without limitation, claims under the antitrust laws, against Blue Chip and

its past and present officers, directors and stockholders relating to Blue Chip operations prior to the date the Decree becomes final and not subject to appeal, or arising from the reorganization covered by this Plan, may be paid (in whole or in part) without penalty at any time after six years after their date, and will be entitled, after provisions for subordination, to mandatory sinking fund payments equal to 20% of the aggregate principal amount outstanding on the sixth anniversary of their date of issuance on such date and on the seventh, eighth and ninth such anniversary dates. The debentures will be issued pursuant to an indenture which will be qualified under the Trust Indenture Act of 1939 and will contain other usual provisions.

4. Offer to Users.

As soon as the registration statement has been declared effective by the SEC: each past User whose name appears on Blue Chip Records as a "house account" during the period subsequent to March 1, 1964 and prior to a date to be determined which will be not more than 90 days prior to the effective date of the registration statement referred to above, and each current user, will have mailed to its latest address according to the records of Blue Chip a copy of the prospectus, together with a notice that such Users will be offered the opportunity to purchase units after their respective entitlements have been ascertained.

Advertisements will also be placed in appropriate newspapers advertising that an offering of units will be made to the Users of stamps subsequent to March 1, 1964 and advising that any of such Users who have not been sent the mailing by the Company referred to above may request a copy of the prospectus and a form on which such User may establish his usage since March 1, 1964 for the purpose of participating in the offering. Thirty days

after the publication of the first such advertisement, the right of Users to establish their usage shall terminate.

Immediately thereafter New Company shall commence the preparation of a list of all Users who have been sent the mailing referred to above and those who have responded to the advertisement and have established their eligibility as Users. Such list shall show, with respect to each User, the number of units to which such User is entitled, determined as set forth below. As soon as practical thereafter there shall be mailed to all such Users a subscription form on which will be stated the maximum number of units that the respective User is entitled to purchase. The subscription form shall state that the User may purchase any lesser number of units. Such subscription rights shall not be transferable and the securities constituting the Units purchased will be issued only in the name of the User.

For a period of 30 days after all subscription forms are mailed out, each User may complete the form agreeing to buy the number of units (up to the stated maximum) which he sets forth thereon and send the form, together with a check covering the purchase price of such units, to the Subscription Agent, which shall be a bank located in Los Angeles, California. Such subscription offer shall terminate at the close of business on the thirtieth day after the mailing of the subscription form. New Company shall instruct the Subscription Agent to issue securities comprising the units purchased and send them to the purchasers thereof, all in accordance with the terms of the offer, provided that no units shall be issued until the check representing the purchase price has cleared.

5. Method of Determining User's Entitlement to Units.

The number of units which each User shall be entitled to purchase shall be determined as follows: 207,200 units (the total number of units to be offered) will be available

to all nonstockholder users during the period between March 1, 1964 and a date to be determined which will be not more than 90 days prior to the effective date of the registration statement referred to above. Each eligible User will be entitled to units as its total use during such period bears to the total use by all nonstockholder users during such period, with a minimum of one unit. No fractional units shall be issued. The number of units to which any User is entitled shall be rounded to the nearest whole unit (with all Users being entitled to a minimum of one Unit), and those entitled to an even one-half unit shall be rounded to the next higher full unit.

D. Offering to Management and Qualified Stock Option Plan.

1. California Commissioner of Corporations.

New Company will file an application with the Commissioner of Corporations of the State of California for a permit authorizing it to sell 27,600 shares of its Common Stock to management employees at a price of 33⅓ cents per share. It will concurrently apply for the permit of the Commissioner authorizing the grant of options pursuant to the qualified stock option plan and the issuance of shares pursuant thereto.

2. Terms of Offering to Management.

The shares to management employees will be sold immediately after the merger under a separate purchase agreement with each employee which will provide, among other things, that the shares subject thereto cannot be sold, transferred or hypothecated by the purchaser for a specified period of time and that during such period of time if such employee voluntarily (as defined in the agreement) terminates his employment with New Company or attempts to sell his stock in violation of the agreement, New Company shall have the right to buy such shares at

the price which he paid for them. Such restrictions and the resale obligation will terminate with respect to 20% of each management employee's shares in each of five consecutive years, with all such restrictions and obligations being terminated not later than January 1, 1974.

3. Terms of the Qualified Stock Option Plan.

The qualified stock option plan will be adopted by the directors of New Company and approved by its shareholders immediately following the merger. The qualified stock option plan will cover 110,400 shares of New Company Common Stock, will provide for the grant of options thereon at not less than the fair market value of the shares on the date of grant, the options granted will be exercisable in installments of 25% thereof at the end of each of the first, second, third and fourth years after the date of grant, the person acquiring the shares on exercise of the option will give an investment letter with respect thereto (unless the stock is registered under the Securities Act of 1933), and the options shall not be transferable, except to a limited extent upon the death of an optionee. The options will terminate not more than five years after the date of grant. It is contemplated that the option plan will contain provisions which are standard in such plans.

E. Compliance with Decree by New Company.

Blue Chip and New Company (as Blue Chip's successor under Section III of the Decree) will conduct the operations of the trading stamp business in accordance with the provisions of Section VIII(A) of the Decree. New Company will be regarded as "New Blue Chip" under the Decree upon the election of the Permanent Directors of New Company. The Permanent Directors will authorize and cause New Blue Chip to enter its appearance in *United States v. Blue Chip Stamp Company, et al.* and to give the required consent pursuant to the provisions of Section

VIII(B) of the Decree. At that point New Blue Chip will become bound by the provisions of Section VIII(B) of the Decree; New Blue Chip will engage in the trading stamp business for a reasonable period of time thereafter; and New Blue Chip and the stockholder defendants will thereafter be precluded from having common officers, directors and employees. (See Sections VIII(B) and (C) of the Decree.) As is indicated above, prior to the shareholder meeting for the election of Permanent Directors the stockholder defendants will have placed their stock in trust so that the voting rights of the shares of each of the stockholder defendants may be exercised only by persons acceptable to the Department of Justice or to the Court.

F. Disposition of Unsubscribed Shares, If Any.

Based upon the outcome of the offering to Users and employees, the Permanent Directors will take such steps as may be necessary to complete the reorganization by obtaining an appropriate disposition of any unsubscribed shares.

III.

PRINCIPAL ACTIONS

The following sets forth a summary of specific steps contemplated for effecting the Plan. New Company will try to complete the action necessary in connection with carrying out the Plan as expeditiously as is reasonably practicable. Certain events are dependent upon action by other persons or entities and the speed with which such action will be taken will not always be within the control of New Company.

1. Incorporate New Company.

2. File application with Commissioner of Corporations of the State of California (the "Commissioner")

for a permit authorizing the issuance of one share of New Company to Blue Chip.

3. File application with the Commissioner for a negotiating permit authorizing the signing of the merger agreement.

4. Obtain permit.

5. Boards of directors of Blue Chip and New Company approve merger.

6. Send notice of special meeting of stockholders and proxy statement to shareholders of Blue Chip.

7. File application with the Commissioner for a definitive permit authorizing the merger and the issuance of shares.

8. File registration statement with the SEC under the Securities Act of 1933 to register the units to be offered to Users.

9. File application with the Commissioner for a permit authorizing the offering to Users, and sale of shares to management employees and the grant of options under the qualified stock option plan and the sale of shares pursuant thereto.

10. Hold special meeting of stockholders of Blue Chip to approve merger; stockholder of New Company consents to merger.

11. Send notice to shareholders of Blue Chip advising as to approval of merger.

12. Take any other necessary action with respect to blue sky or securities laws of any other states in which the offering will be made.

13. Receive comments on the registration statement from the SEC.

14. File the first amendment to the registration statement with the SEC.

15. File a second amendment to the registration statement, if necessary, with the SEC.

16. Obtain permit authorizing the merger and the offering of units, shares and options from the Commissioner.

17. File agreement of merger with the Secretary of State of the State of California effecting merger.

18. Hold meeting of New Company stockholders to adopt qualified stock option plan.

19. Registration statement declared effective.

20. Sell shares to management employees.

21. Mail copy of prospectus to all known Users, together with advice that offering will be forthcoming.

22. Make a public solicitation for information concerning other Users who would be entitled to participate in the offering.

23. Right of Users to prove their entitlement to units or to indicate their interest in participating terminates.

24. Send subscription forms to Users entitled to participate in the offering advising as to the number of units to which the User is entitled.

25. Subscription period ends.

26. Complete issue of units to those purchasing them.

27. Select trustees to hold shares and obtain necessary approval thereof.

28. Hold meeting of shareholders to elect Permanent Directors.

29. Authorize and enter appearance of New Blue Chip.

[Letterhead of O'Melveny & Myers omitted in printing.]

July 31st, 1967

Stanley E. Disney, Esq.
Chief, Los Angeles Office
Department of Justice,
Antitrust Division
836 United States Court House
312 North Spring Street
Los Angeles, California 90012

Re *United States v. Blue Chip Stamp Company, et al.*

Dear Mr. Disney:

This letter is written pursuant to your request in order to explain the background of certain aspects of the proposed plan of reorganization.

Under the reorganization provisions of the decree, it was contemplated that an interest in the Blue Chip business would be offered to numerous third parties and that once participation of the new owners was established, the new ownership would exercise control over the affairs of the business. Plan "A" provided for the transfer of ownership in a reorganization, conducted within Blue Chip's present corporate framework, by an offering of the stock of the existing company. Plan "B" reached the same result by an offering of the stock of a new company which Blue Chip would create and into which it would be merged.

If Plan "A" of the decree were being followed, the present directors of Blue Chip would automatically remain until the completion of the offering to users, at which time the new ownership would elect its new board of directors. Under Plan "B", the plan which Blue Chip has elected to follow, the technical steps necessary to carry out the Plan call for the creation of a new company prior to the time at which the offering can be made, and thus the directors of Blue Chip will serve as the directors of the new company until after the offering when the new owners can elect their own directors. This produces the same result as would obtain under Plan "A".

We also wish to point out that it is also necessary for the directors to continue in office until the offering to users, because of certain practical problems. Under the Securities Act of 1933, each director is responsible, in his individual capacity, for all of the material contained in the SEC registration statement covering the offering of stock to users. If, at the time the prospectus is being used, it is known that any other persons will be directors, such fact would have to be disclosed in the prospectus, such persons would have to give their consent to being named, and the execution of such consent would subject them to the same liabilities under the Securities Act of 1933 as though they signed the registration statement as directors. These liabilities would attach even though such persons had no present affiliation with the company. Under these circumstances, it is the opinion of the management of Blue Chip Stamp Company, that it would not be possible nor would it be practical to obtain new independent directors of the caliber desired for the company for the short period of time between the creation of the new corporate shell and the offering to users — such short term service carrying with it the necessary condition of possible extensive personal liability.

You also requested that we estimate the amount of time involved in carrying out the plan of reorganization. We estimate that by November 30, 1967 it will be possible to have the registration statement declared effective by the Securities and Exchange Commission. By this time all of the other steps which are necessary to begin the actual making of the offering to users should have been accomplished. The mechanics of the offering should embrace an additional two to three months. Once the subscriptions are closed the shareholders' meeting to elect the new board of directors can be accomplished promptly. These estimates are based on the assumption, of course, that regulatory approvals or court proceedings will not unduly prolong the schedule.

Very truly yours,

WILLIAM W. ALSUP
of O'Melveny & Myers

PROSPECTUS [Exhibit "C" to Amended Complaint]

BLUE CHIP STAMPS

$20,720,000 6½% Subordinated Debentures due 1978

621,600 Shares of Common Stock, Par Value $.33⅓ per Share

THESE SECURITIES ARE OFFERED AS A SPECULATION. ATTENTION IS DIRECTED TO "ITEMS OF SPECIAL INTEREST" ON THE FOLLOWING PAGE. PRIOR TO THIS OFFERING THERE HAS BEEN NO MARKET FOR THE COMMON STOCK OR THE DEBENTURES.

Offered Only in Units, each Unit (hereinafter a "Unit") Consisting of $100 Principal Amount of the 6½% Subordinated Debentures due 1978 of Blue Chip Stamps (the "Company") and Three Shares of Common Stock of the Company for a Price of $101 per Unit (See "Offer to Users" herein).

The 6½% Subordinated Debentures due 1978 (the "Debentures"), subject to conditions referred to below, are entitled to the benefits of a sinking fund, commencing in 1974, in an annual amount which could total 20% of the aggregate principal amount of Debentures outstanding on December 1, 1974 and which could retire as much as 80% of the Debentures prior to maturity. The Company may not make a sinking fund payment if Claims or Causes of Action after such payment would exceed 50% of stockholders' equity. Claims or Causes of Action include a) the amount of claims asserted in lawsuits against the Company or Blue Chip Stamp Company or officers, directors or stockholders of the Company or Blue Chip Stamp Company based upon Blue Chip Stamp Company's organization or operations or the acts of such officers, directors or stockholders in connection therewith. including those based on alleged violations of antitrust laws or arising out of the Plan of Reorganization (described in "Plan of Reorganization" herein), and b) claims asserted by such officers, directors or stockholders based upon indemnifications by the Company and Blue Chip Stamp Company holding them harmless from liability arising out of the claims asserted in a) above. Claims or Causes of Action now aggregate approximately $29,000,000. The Debentures are subordinated to payments of Senior Indebtedness, which term includes certain indebtedness of the Company to banks and other lending institutions and the amounts owing by the Company on Claims or Causes of Action established by court judgments or otherwise settled and agreed to by the Company, and prior to December 1, 1978 the Debentures are also subordinated to all Claims and Causes of Action as above defined. See "Description of Debentures" for definitions and other relevant descriptions. Interest will be payable on March 1, June 1, September 1, and December 1.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discounts and Commissions	Proceeds to Company(1)(2)
Per Unit	$101	None	$101
Total	$20,927,200	None	$20,927,200

(1) Before deducting expenses estimated at $49,200 payable by the Company.
(2) Based upon the assumption that all Units offered are sold.

The Company is offering to certain Users of its stamps the right to purchase Units based upon their usage of stamps during the period between March 1, 1964 and June 1, 1968. See "Offer to Users" herein. The Company is concurrently offering certain of its employees the right to purchase an aggregate of 27,600 shares of its Common Stock, par value $.33⅓ per share, for a price of $.33⅓ per share. See "Offer to Employees" herein. The rights of Users to purchase Units will expire as set forth under "Offer to Users" herein.

This offering is not underwritten, and the Company has no assurance that all of the securities offered hereby will be sold.

The date of this prospectus is August 29, 1968, as supplemented.

ITEMS OF SPECIAL INTEREST

Prospective purchasers of securities offered herein should particularly note the following items, each of which will be or may be adverse and which is discussed later in this prospectus in greater detail:

(1) Net income for the current fiscal year will be adversely affected by payments aggregating $8,486,000 made since March 2, 1968 in settlement of claims against the Company (see "Statement of Income and Retained Earnings" and "Litigation").

(2) Net income would be adversely affected by a substantial decrease in the use of the Company's trading stamp service (see "Business — General").

(3) Net income would be adversely affected by a sale of one-third of the Company's trading stamp business in California; approximately 99% of the Company's stamp service income is derived from its operations in California (see "Business — Effects of Consent Decree on Company's Operations").

(4) Claims or Causes of Action (as defined) against the Company, including prayers for treble damages, now aggregate approximately $29,000,000. The Company has agreed to indemnify Blue Chip Stamp Company and the present and former officers, directors and stockholders of the Company or Blue Chip Stamp Company from any liability or expense arising out of certain claims asserted against any of them (see "Litigation").

(5) All but two of the present directors are precluded until June 5, 1977 from serving as directors after the first meeting of the Company's stockholders following the offering herein so long as they are employed by specified companies (see "Management").

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THE COMPANY

Blue Chip Stamps (herein called the "Company") was incorporated under the laws of the State of California on February 5, 1968. On July 16, 1968 it succeeded by merger to the business of Blue Chip Stamp Company, which had been formed on May 14, 1956. References to the "Company" in this prospectus are to Blue Chip Stamps and to its predecessor, unless the context otherwise provides. The Company, whose principal offices are located at 5801 South Eastern Avenue, Los Angeles, California, is and has been since 1956 engaged primarily in furnishing a trading stamp service to retail merchants and their customers. At March 2, 1968 approximately 20,000 retailers licensed by the Company to use its trading stamp services were distributing Blue Chip stamps in over 23,000 retail outlets in California and Nevada. The Company maintains 84 redemption stores where savers of Blue Chip stamps may redeem them for a wide variety of merchandise or for cash. The Company is also engaged in the development of incentive programs and premium promotions, primarily for industrial, commercial and other companies, which now represents a small but growing part of the Company's business.

The Company's predecessor was organized by a group of retail grocery chains with the approval and support of a large segment of the grocery industry and other retail merchants in California. In December 1963 the United States Department of Justice filed an action under the Sherman Act against Blue Chip Stamp Company and nine of its twelve stockholders (see "Litigation" herein for a more detailed description of that litigation). On June 5, 1967 a Consent Final Judgment (the "Consent Decree") was entered in the United States District Court, Central District of California (Civil Action No. 63-1552-F) providing for the reorganization of Blue Chip Stamp Company under a plan which has been approved by the Court ("the Plan of Reorganization").

PLAN OF REORGANIZATION

The Plan of Reorganization provides for the formation of the Company as a wholly-owned subsidiary of Blue Chip Stamp Company, and the merger of Blue Chip Stamp Company into it. Such merger has been completed and 621,600 shares of the Company's Common Stock issued in the merger are now outstanding.

Under the terms of the merger, the Company has indemnified Blue Chip Stamp Company and all present and former stockholders, directors and officers of the Company or of Blue Chip Stamp Company from any liability or expense arising out of certain claims asserted against any of them. The Plan of Reorganization provides for an offering by the Company, as Units, of approximately an additional 621,600 shares of its Common Stock, together with approximately $20,720,000 in principal amount of its 6½% Subordinated Debentures due 1978, to be made to users of Blue Chip stamps (who issue stamps to their retail customers as a reward for their patronage) on a pro rata basis to be determined by the quantity of the stamp pads issued to Users during the period between March 1, 1964 and June 1, 1968. See "Offer to Users" herein. Present stockholders of the Company and incentive program clients of the Company are not "Users" and are not entitled to participate in the offering of these Units. (The

users to whom such offering is to be made pursuant to the Plan of Reorganization are hereinafter referred to as "Users"). The Plan of Reorganization also requires the Company to offer to sell 27,600 shares of its Common Stock to certain employees at a price of $.33⅓ per share and to adopt a qualified stock option plan and grant options pursuant thereto to key employees covering an aggregate of 110,400 shares of its Common Stock.

Blue Chip Stamp Company, pursuant to a policy of its organizers and Board of Directors, paid no dividends at any time. In 1964, Blue Chip Stamp Company paid a patronage rebate to its users of approximately $1,901,000. The Company (Blue Chip Stamps) has been organized with the intention of paying dividends subject to the restriction referred to under "Dividends". It is the intention of the Company to pay no patronage or other rebate to any User.

The Plan of Reorganization also requires that the Company present to the Court a plan for the disposition of all unsubscribed shares within sixty days after the election of a new board of directors as described under "Management." It is presently expected that any such offering will consist of shares of common stock only and will be made by the Company after completion of the offering described in this prospectus at a price at or near the price at which shares of the Company's common stock are then being traded.

The Plan of Reorganization further requires that:

Except to the extent that restraints are imposed on the nine Stockholders referred to above by the Consent Decree or the Plan of Reorganization with respect to the purchase of additional shares by any of them, or are imposed by the purchase agreements with management employees or by the Securities Act of 1933 on shares to be subject to a qualified stock option plan, there shall be no restraint upon free alienation of any of the shares issued by the Company.

To enable the nine Stockholders referred to above and the other three stockholders who were the twelve stockholders (the "twelve stockholders") of the Blue Chip Stamp Company to sell any or all of their shares of the Common Stock of the Company in compliance with the Securities Act of 1933, the Company is required to register under that Act the shares of any of the twelve stockholders at such time or times as may be requested by any of them. The Company is obligated to pay the expenses of one such registration if requested during the three months period commencing January 1, 1969 and one such registration if requested during the three months period commencing January 1, 1970. Otherwise registration expenses are to be paid by stockholders requesting them. Within ten days of receipt of any such written request for registration the Company must give notice thereof to all the other twelve stockholders and offer them an opportunity to join in the registration so requested. The Company shall file registration statements so requested with the Securities and Exchange Commission on or before May 31 of the year of request.

If at any time prior to June 5, 1977, as a result of purchases by the Company of its shares, the aggregate of shares beneficially owned by the nine Stockholders referred to above exceeds 43% of the sum of (a) the Company's outstanding shares and (b) the Company's shares reserved for issuance pursuant to a qualified stock option plan, the Company must present to the Court, within 60 days, a plan for disposing of a number of shares sufficient to reduce the percentage of shares beneficially owned by such nine Stockholders below such 43%.

OFFER TO USERS

Past Users of the Company's trading stamps whose names appear on the Company's records as "house accounts" during the period subsequent to March 1, 1964 and prior to June 1, 1968 and each current User, will have mailed or hand delivered to its latest address according to the Company's records a copy of the prospectus, together with a notice that such Users will be offered the opportunity to purchase Units after their respective entitlements have been ascertained. Current Users served by Company salesmen will also be provided with a form on which to establish usage during the period stated above.

Advertisements will also be placed in appropriate newspapers informing Users that an offering of Units will be made to Users of the Company's stamps subsequent to March 1, 1964 and advising that Users who have not received a copy of the prospectus and notice referred to above may request a copy of the prospectus and a form on which such User may establish his usage since March 1, 1964 for the purpose of participating in the offering. Thirty days after the publication of the first such advertisement, the right of Users to establish their usage shall terminate.

Immediately after the close of such period, the Company will calculate the number of Units to which each User is entitled, determined as follows: 207,200 Units (the total number of Units offered), each consisting of three shares of Common Stock and a $100 principal amount of Debenture, will be available to all Users during the period between March 1, 1964 and June 1, 1968. In accordance with the Plan of Reorganization, each eligible User will be entitled to such Units as its total use of stamps during such period bears to the total use by all Users during such period, with each User being entitled to a minimum of one Unit. No fractional Units are to be issued, the number of Units to which any User may be entitled are to be rounded to the nearest whole Unit and those Users entitled to an even one-half Unit shall be rounded to the next higher whole Unit. All entitlements will be determined by the Company, and the Company's determination will be final.

As soon as practicable after the computation of Unit entitlements, the Company will mail to all Users whose usage has been established during the applicable period a subscription form on which will be stated the maximum number of Units that the respective Users are entitled to purchase. Each User is entitled to purchase up to the stated maximum number of Units. The subscription rights are not transferable and the securities constituting the Units purchased will be issued only in the name of the User.

Each User may complete the subscription form agreeing to buy the number of Units (up to the stated maximum) which he sets forth thereon and send the form, together with a check covering the purchase price of such Units, to Bank of America National Trust and Savings Association, the Subscription Agent. Such subscription offer shall terminate at the close of business on the 30th day after the mailing of the subscription form, which termination date will be set forth on the subscription form, and subscriptions must be mailed to the Subscription Agent prior to such termination. The Subscription Agent will issue the securities comprising the Units purchased promptly after the check representing the purchase price has cleared.

A stockholder need not use the Company's trading stamp service nor is it necessary to be a stockholder in order to be eligible to use the Company's trading stamp service.

Tax Effect to Users

If the Units sold to Users pursuant to this offering should, by reason of subsequent market values, be held to have had a greater value at date of sale than the amount paid for them, Users may be subject to ordinary income tax on such difference. Also see "Federal Tax Consequences of Original Issue Discount" under "Description of Debentures" herein for possible tax consequences relating to the Debentures.

OFFER TO EMPLOYEES

Pursuant to the Plan of Reorganization, the Company is offering to certain of its employees the right to purchase an aggregate of 27,600 shares of its Common Stock at a price of $.33⅓ per share. Any such shares purchased will be pursuant to an agreement in which the purchaser agrees not to sell, transfer or hypothecate the shares for specified periods of time and that he will offer to resell them to the Company if his employment with the Company should be terminated for reasons specified in the agreement or if he attempts to transfer shares in contravention of the agreement. Such restrictions and the resale obligation will terminate with respect to 20% of each employee's shares in each of five consecutive years, with all such restrictions and obligations being terminated not later than January 1, 1974. All restrictions will terminate on the employee's death with respect to shares held by him. The certificates representing shares will be held in escrow by the Company and released to the purchaser at such time as the restrictions and other obligations with respect thereto terminate.

The Company has received a ruling from the Internal Revenue Service with respect to the purchase of shares by management employees to the effect that:

1. No taxable income will be realized by the employee at the time of purchase.

2. The employee will realize taxable compensation income, if any, at such time as the restrictions on the shares lapse, in an amount equal to the lesser of:

   (i) The difference between the purchase price and the fair market value of the shares without restrictions at the time of purchase by the employee, or

   (ii) The difference between the purchase price and the fair market value of the shares at the time of lapse of the restrictions.

3. The employee's basis for the shares will be their purchase price plus the compensation income, if any, with respect to such shares realized by him.

4. The Company will be entitled to a deduction for compensation paid at the same time and in the same amount as compensation income, if any, is realized by employees.

USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of the Units and the shares being offered to management employees, which will approximate $20,884,700 if all are sold, will be used, with other assets of the Company, for the purposes of:

a. Paying such amounts, if any, as may be owed by the Company on Claims or Causes of Action (see "Litigation" and "Description of Debentures" — "Claims or Causes of Action" herein) established by court judgments or otherwise settled and agreed to by the Company; and

b. Diversifying its activities through acquisitions or otherwise (at present the Company is not engaged in negotiations looking toward any acquisition); and

c. For general corporate purposes.

CAPITALIZATION

The table below sets forth the capitalization of the Company as of July 1, 1968 and as adjusted to reflect consummation of the merger described under "The Company" herein and to give effect to the sale of the Debentures and Common Stock, including the sale of shares to employees (assuming all such securities are sold).

	As of July 1, 1968		
Title of Class	**Amount Authorized**	**Amount Outstanding**	**As Adjusted**
6½% Subordinated Debentures due 1978	$20,720,000	-0-	$20,720,000
Common Stock, par value $.33⅓	1,400,000 shs	621,600 shs	1,270,800 shs (1)

(1) Not including 110,400 shares reserved for issuance pursuant to the Company's Qualified Stock Option Plan (see "Management" herein).

DIVIDENDS

The Company has not heretofore paid cash or other dividends on its stock, and, in view of the Indenture restrictions on payment of dividends referred to in "Description of Debentures" — "Dividend Restrictions" herein, does not presently plan to do so. The Company expects to pay cash dividends in the future, but neither the times at which such dividends may be paid nor the amounts thereof have been determined. Such determinations will be made by the Board of Directors then in office (see "Management") in the light of future earnings, the financial needs and condition of the Company and other relevant factors.

BLUE CHIP STAMPS

STATEMENT OF INCOME AND RETAINED EARNINGS

The following statement has been examined by Price Waterhouse & Co., independent accountants, whose opinion thereon, which is subject to the possible material adverse effect on the Company's financial position of the litigation referred to in Note 8 to the financial statements, appears elsewhere in this prospectus. The statement should be read in conjunction with the other financial statements and notes thereto included elsewhere in this prospectus.

(In Thousands of Dollars)

	Year ended June 30		Eight months ended Mar. 2	Fifty-two weeks ended			Fifty-three weeks ended Mar. 4	Fifty-two weeks ended Mar. 2
	1961	1962	1963	Feb. 29 1964	Feb. 27 1965	Feb. 26 1966	1967	1968
Stamp service income (Note A)	$48,450	$57,038	$43,714	$68,706	$72,305	$81,594	$92,028	$91,757
Income from marketable securities:								
Dividends	71	130	103	262	299	317	458	523
Interest	330	548	535	1,013	1,191	1,410	1,671	1,715
Gains (losses) on sale of securities	7	66	14	129	304	31	(84)	90
Other income	209	282	248	380	461	449	603	579
	49,067	58,064	44,614	70,490	74,560	83,801	94,676	94,664
Costs and expenses:								
Cost of redemptions, consisting of merchandise and related expenses	40,088	48,047	35,065	59,480	65,070	71,470	81,854	83,797
Stamp pads and saver books	1,825	2,105	1,560	2,507	2,320	2,010	2,041	1,942
Advertising and other selling expenses	1,875	2,233	1,174	2,176	2,170	1,829	2,091	2,221
General and administrative expenses	874	1,297	1,097	1,538	1,338	1,217	1,899	1,938
Interest on income tax settlements	391	12	23					
Patronage rebate (Note B)				1,901				
	45,053	53,694	38,919	67,602	70,898	76,526	87,885	89,898
Income before federal income taxes	4,014	4,370	5,695	2,888	3,662	7,275	6,791	4,766
Provision for federal income taxes (Notes A and C)	2,171	2,006	2,891	1,073	1,158	2,809	2,507	1,348†
Net income (Note D)	1,843	2,364	2,804	1,815	2,504	4,466	4,284	3,418
Retained earnings (deficit) at beginning of period	(645)	1,198	3,562	6,366	8,181	10,685	15,151	19,435
Retained earnings at end of period	$ 1,198	$ 3,562	$ 6,366	$ 8,181	$10,685	$15,151	$19,435	$22,853
Net income per average common share (Note E):								
Historical	$2.96	$3.80	$4.51	$2.92	$4.03	$7.18	$6.89	$5.50
Pro forma, assuming that the shares offered herein are fully subscribed and that income from the proceeds of this offering will be equal to the interest expense on the Debentures								$2.69

(A) See Note 2 of Notes to Financial Statements.

(B) See "Litigation" herein.

(C) The entire investment credit (not material in amount) has been taken into income of the respective years as a reduction of the provision for federal income taxes.

(D) See "Business" — "Effects of Consent Decree on Company's Operations" herein.

(E) Neither the historical nor pro forma net income per average common share is necessarily indicative of the future net income per share in view of:

(1) the indeterminate number of shares which may be purchased by Users.

(2) the effect of a possible substantial decrease in the use of the Company's trading stamp service.

(3) the uncertainty as to the ultimate effect of a sale of one-third of the Company's trading stamp business.

(4) claims and causes of action pending against the Company now aggregating approximately $29,000,000.

(5) all but two of the present directors of the Company are precluded until June 5, 1977 from serving as directors after the first meeting of the Company's stockholders following the offering herein so long as they are employed by specified companies.

See "Items of Special Interest" herein and the other parts of this prospectus therein referred to.

(F) See "Dividends" and "Description of Debentures" — "Dividend Restrictions" herein.

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† The provision for federal income taxes does not contain any amount on account of the 10% federal income tax surcharge enacted June 28, 1968. The amount of such surcharge applicable to the period ended March 2, 1968 is approximately $28,000; such amount is included in the figures set forth below for the twenty-two weeks ended August 3, 1968.

The maximum annual requirement for interest on the Debentures (assuming all Units are sold) would be $1,346,800. The amount of "original issue discount," if any, applicable to the Debentures will be amortized over the life of the Debentures.

The decline in net income for the fiscal year ended February 29, 1964 was due primarily to reductions in the amounts charged to licensees for the Company's trading stamp service and to the patronage rebate made to stamp users. See "Litigation" herein. The decline in net income for the fiscal year ended March 2, 1968 was due primarily to the additional costs resulting from operations, commenced in September 1966, of a distribution center in Rancho Cordova; the Company did not renew the lease at Rancho Cordova, which expired June 30, 1968.

The following unaudited summary sets forth stamp service income, income before extraordinary item, extraordinary item, net income and net income per share for the periods indicated. In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of operations have been made.

	Twenty-two Weeks Ended	
	August 5, 1967	August 3, 1968
Stamp service income	$37,236,000	$44,242,000
Income before extraordinary item	1,310,000	2,637,000
Extraordinary item — Settlements (aggregating $7,928,000) of claims (see "Litigation" and Note 8 of Notes to Financial Statements) less $3,974,000 applicable income taxes*		(3,954,000)
Net income (loss)	1,310,000	(1,317,000)
Net income (loss) per share (historical)	$ 2.11	$ (2.12)

*The figures do not include settlements aggregating $558,000 (less $295,000 applicable income taxes) made October 21, 1968 (see page 24 of prospectus).

BUSINESS

General

The Company is primarily engaged in furnishing a trading stamp service to retail merchants and their customers in California and Nevada. At March 2, 1968, approximately 20,000 retailers were licensed by the Company to use its trading stamp service and were distributing Blue Chip stamps in approximately 23,000 retail outlets. During the fiscal year ended March 2, 1968, fourteen licensees accounted for approximately 38% of the Company's stamp service income. One of these 14 licensees, Safeway Stores, Incorporated ("Safeway"), a stockholder and the largest user of the Company's trading stamp service, formerly accounting for approximately 13% of the Company's stamp service income, has discountinued the use of such service in approximately 7% of those of its retail outlets using such service and has adopted different marketing practices and methods in such outlets. Safeway presently plans to discontinue the use of the Company's trading stamp service and adopt different marketing practices and methods in approximately an additional 17% (before giving effect to the 7% reduction mentioned above) of those of its retail outlets then using such service. Safeway has informed the Company that, although its management has no present intention of making any additional material changes in Safeway's use of such service during the period while such changes (if carried through) are being put into effect, Safeway's future course after that time will depend upon the results obtained from the changeover, the market conditions then existing and such other factors as its management may regard as relevant. Another of the Company's stockholder licensees, accounting for less than 1% of the Company's stamp service income during the fiscal year ended March 2, 1968, has discontinued the use of the Company's trading stamp service since March 2, 1968. Three of the Company's major licensees (each a stockholder), which had accounted for approximately 7% of the Company's stamp service income during the fiscal year ended March 4, 1967, discontinued the use of the Company's trading stamp service during 1967. Although the Company cannot predict with any degree of certainty what the ultimate effect on the Company's net income will be from Safeway's proposed discontinuance of such service, or from Safeway's further discontinuance of such service in a substantial number of additional outlets or in all of its other outlets using such service, or the discontinuance of such services by one or more other important licensees (no one of which accounted for more than 4% of the Company's trading stamp service income during the fiscal year ended March 2, 1968), it is anticipated that the occurrence of one or more of such events would have a materially adverse effect on the Company's net income.

The demand by merchants for trading stamp services is affected by marketing practices and consumer attitudes toward trading stamps. Some merchandising analysts have reported that use by retailers of trading stamps nationally may be declining. However, the Company's stamp service income in its fiscal year ended March 2, 1968 was approximately the same as in the previous year (see "Statement of Income and Retained Earnings" herein). The Company has no assurance of continued patronage from any of its retailer licensees.

See "Effects of Consent Decree on Company's Operations" herein for a description of a requirement that the Company present to the Court within 30 months after the completion of the Plan of Reorganization a plan to offer for sale one-third of its trading stamp business in the State of California, which one-third shall be located in a contiguous area in Southern California.

The Company maintains 84 redemption stores where savers of Blue Chip stamps may redeem them for a wide variety of merchandise or for cash.

Method of Operation

The Company's trading stamp service is used by retailers primarily as a method of promotion which will enable them to increase and maintain their volume of sales. By offering Blue Chip stamps with their sales, they seek to attract new customers and to encourage steady patronage.

An important feature of the Company's service is the general availability of its stamps to all retailers who desire the use of the stamp service. In this respect the Company's operations differ from those of other trading stamp concerns which make a general practice of not licensing more than one retailer in the same type of business within a given marketing area. This exclusive franchise practice of other stamp companies enables the retailer user to differentiate his establishment from those of his competitors and for this reason the large stamp companies which operate on this exclusive franchise basis are able to and do command a higher price for their stamp service than the Company, which makes its stamp service generally available to all retailers who desire its service. On the other hand, the Company's method of operation (which permits retailers to have the same stamp service as many of their competitors) is particularly beneficial to the many retailers which otherwise would be unable to obtain a franchise to use the stamp service of a company whose stamps have wide consumer acceptance. The promotional value of a trading stamp service is directly related to the degree of consumer acceptance of the stamp's brand name.

The Company's stamp service is licensed under agreements terminable at the will of either party upon the giving of two weeks' written notice. See "Effects of Consent Decree on Company's Operations" herein for a description of limitations on the Company's right to terminate such agreements. The licensee pays the Company for the use of its service an amount measured by the number of stamps issued to the licensee.

The licensee agrees to advertise the use of Blue Chip stamps by displaying such advertising signs as are furnished by the Company and to furnish his customers with stamp saver books and premium catalogs, both of which are supplied to him by the Company. In general, retailers offer stamps at the rate of one stamp for each 10 cents paid, although some offer extra stamps. Under California law trading stamps cannot be given in connection with the sale of alcoholic beverages or fluid milk.

Retailer Licensees

The Company licenses the use of its trading stamp service to many different types of businesses in the states of California and Nevada. However, the Company's service has been used most often in those fields of trade which are characterized by similarity in the products and services offered and a high frequency of purchase, such as retail food stores, service stations and drug stores. This is indicated by the following table which sets forth the percentage breakdown of total stamps issued by the Company during the fiscal year ended March 2, 1968 to the major categories of licensees:

Supermarkets and other retail food stores	58.5%
Service Stations	30.4
Drug Stores	5.0
Other	6.1
	100.0%

The Company's trading stamp service has widespread use among both small independent merchants and supermarket chains. Of the fourteen licensees referred to above, each of which accounted for

more than one per cent of the Company's stamp service income for the fiscal year ended March 2, 1968, twelve were supermarket chains. These twelve chains accounted for approximately 34% of the Company's stamp service income for such period with no one of them accounting for more than 13% of stamp service income (but see "General" above).

The Company has a sales force of approximately 75 field representatives located in California and Nevada who solicit new licensees and serve existing licensees.

Redemption of Trading Stamps

Under the Business and Professions Code of the State of California a stamp saver may present stamps accumulated in any amount of 100 or more to the Company for redemption in merchandise or cash. Cash redemptions represented less than one per cent of the total redemptions made by the Company during the fiscal year ended March 2, 1968.

The Company maintains 84 redemption stores located in California and Nevada. In all of these redemption stores the Company maintains inventories of merchandise from which redemptions can be made. A stamp saver who is not located within twenty-five miles of one of the Company's redemption stores can redeem stamps by mailing them directly to the Company for redemption in either cash or merchandise.

The Company currently offers to stamp savers a choice of approximately 1,500 merchandise items, most of which are nationally advertised brands. These include various household items, such as sheets, towels, housewares, electrical appliances, luggage, lamps and photography equipment, sporting goods, jewelry, furniture and various other types of merchandise which are illustrated and described in a premium catalog published each year by the Company. Approximately 9,000,000 copies of the Company's premium catalog were distributed in 1967. The number of filled stamp books required to redeem the items in the Company's latest catalog ranges from one-half to 227. The Company estimates that the average redemption involves approximately three books of stamps.

The retail value of the merchandise obtainable upon the redemption of a book of the Company's trading stamps varies somewhat depending upon the type of item selected. The Company estimates that the redemption merchandise distributed by it during the fiscal year ended March 2, 1968 represented a total retail value of approximately $126,000,000. The Company purchases its redemption merchandise from over 495 suppliers, for some of which the Company is the largest single customer.

All trading stamps issued by the Company are redeemable, regardless of the length of time they have been outstanding. The Company frequently redeems stamps which were issued many years prior to their presentation for redemption. The Company is, therefore, unable to determine with absolute certainty the percentage of its stamps issued which will ultimately be presented for redemption. For a number of years the Company has made statistical evaluations of its redemptions. Based upon analysis of such evaluations the Company presently estimates that 97.5% of all stamps issued will ultimately be redeemed. On this basis the Company maintains its financial records, files its tax returns and provides a liability account in an amount equal to the estimated cost of redeeming outstanding stamps. This redemption rate is also reflected in the charges which the Company makes for the use of its trading stamp service and the values offered in the redemption of its stamps. Although the Company believes that its redemption rate, presently estimated to be 97.5%, is reasonable, it can give no assurance that this rate will not change in the future, nor can the Company estimate the effect of any such change on its future net income. As a matter of policy the Company makes every effort to encourage and facilitate redemp-

tions because it believes that a high rate of redemption is important to the continued participation of retail merchants and their customers in its trading stamp service.

Incentive Programs

In recent years the Company has extended the application of its service to incentive programs which it creates and furnishes for industrial and commercial companies and other organizations. The programs which are designed to suit the particular needs of individual customers may involve the award of Blue Chip stamps or merchandise to employees and others for performance in meeting sales or production goals or for attendance, safety or various other objectives.

The Company presently has more than 600 customers using its incentive programs. The income from this activity was approximately $700,000 for the fiscal year ended March 2, 1968, approximately $960,000 for the year ended March 4, 1967 and approximately $680,000 for the year ended February 26, 1966.

The Company is exploring other possible applications of its stamp service as well as other types of merchandising and promotional techniques.

Effects of Consent Decree on Company's Operations

On June 5, 1967, a Consent Final Judgment ("Consent Decree") was entered in the United States District Court, Central District of California, in a civil action entitled *United States of America v. Blue Chip Stamp Company, et al.* (No. 63-1552-F), which affects the Company's future business and method of operation. Under the terms of the Consent Decree the Company is:

(a) Enjoined and restrained from:

(1) Refusing to provide a trading stamp service or imposing any limitation on such service to any person because of: (i) the presence in the same locality of any establishment operated by another person using the Company's stamp service; (ii) the rate of issue employed by such person in offering the Company's or any other person's stamps; or (iii) the use by such person of any other trading stamp service;

(2) Coercing or compelling any person: (i) to limit the rate of issue employed in offering the Company's or any other person's stamps; or (ii) to refrain from using any other trading stamp service.

(3) Having as an officer or employee any person, who, while holding such position, also serves as an officer, director or employee of any person using trading stamp services, or from having, as a director after the first meeting of the Company's stockholders following completion of this offering to Users and until June 5, 1977, any person, who, while holding such position, also serves as an officer, director or employee of any person who was a stockholder of the Company in 1956 or 1957.

(b) Ordered and directed, within 30 months after the date of completion of the reorganization, to present for the approval of the Court a plan which shall include the following terms:

(1) The Company shall offer for sale one-third of its then existing trading stamp business in the State of California. The business to be offered for sale shall be located within a contiguous geographic area within Southern California;

(2) The purchaser shall have the right, if it so elects, to redeem the Company's trading stamps within the contiguous area for the period of one year following consummation of the sale, and the Company is prohibited for such one-year period from competing in the contiguous area with the purchaser. The Company is required to offer its trading stamp service in the contiguous area following the expiration of the said one-year period.

Although the Company cannot predict with any degree of certainty what the ultimate effect will be of a sale of one-third of its trading stamp business in California, where operations account for approximately 99% of the Company's total stamp service income, and the prohibition against competing for a period of one year with the purchaser, it is anticipated that such sale and prohibition will have a materially adverse effect on the Company's net income from its trading stamp business.

Competition

The business of the Company is competitive. It experiences competition from other trading stamp companies and from companies offering other types of promotional and merchandising programs. The three major trading stamp companies which compete with the Company and which are among the largest in the United States operate on a franchise basis and do not generally license the use of their stamps by more than one of the competing retailers in a particular geographical area, whereas the Company makes its stamps available to all retailers without restriction. The Company also has a number of competitors that are substantially larger in the general field of incentive programs. The Company is unable to predict the extent to which its business may be affected in the future by competition from other trading stamp companies and from competitors in the general field of incentive programs, or the adoption of other promotional and merchandising techniques, by changes in the methods of retail distribution, by general economic developments or by changes in consumer attitudes toward trading stamps.

Employees

The Company employs approximately 1,350 people on a regular basis, approximately 1,125 of whom are employed in redemption stores and distribution centers. It also employs additional people at certain times of the year to meet seasonal requirements. Except for approximately 45 employees located at the Richmond, California facility, the Company's employees are not represented by labor unions. The Company considers its labor relations excellent.

The Company offers its employees a comprehensive program of group life, hospital, medical and long term disability insurance, some of the costs of which are borne by participating employees. The Company has a pension plan in which regular employees (including officers) who have completed two years of service and attained age 25 participate. Retirement benefits are based on an employee's compensation and years of service. The pension plan is funded by contributions made to Union Bank, Los Angeles, trustee under the plan. See Note 6 to Financial Statements.

Legislation

The Company is subject to various statutes and administrative regulations of the State of California, where the Company does most of its business. In the opinion of the Company, these statutes and administrative regulations thus far have had no materially adverse effect upon its business. The trading stamp business has historically been subjected to considerable agitation for restrictive legislation, but such efforts have resulted in only a limited amount of legislation. The Company cannot predict what the effect may be on its business of the enactment by California in the future of new statutes or regulations relating to trading stamps.

PROPERTY

The Company's principal offices are located at 5801 South Eastern Avenue, Los Angeles, California 90022, where the Company occupies approximately 25,000 square feet of space under a lease running to July 31, 1970 (with the Company having options to extend the lease until July 31, 1980).

All of the Company's redemption stores are on leased premises. While these leases vary as to their terms, the Company's present practice is to enter into leases for initial terms of ten years with renewal options for an additional period of five years.

The Company also operates two distribution centers used for the receipt, storage and distribution of redemption merchandise. These distribution centers, located in California, are:

Location	Approximate Storage Capacity in Cubic Feet	Year of Original Construction
Los Angeles	6,081,000	1947
Richmond (near San Francisco)	2,783,000	1961
Total	8,864,000	

The Richmond, California distribution center is owned by the Company in fee. The Los Angeles distribution center is leased under a lease running to July 31, 1970 (with the Company having options to extend the lease until July 31, 1980).

MANAGEMENT

The Company's executive officers and directors are as follows:

Name	Office
Donald A. Koeppel	President and Director
William F. Ramsey	Vice President, Secretary, Treasurer and Director
Frank A. Rote	Vice President
William S. Priest	Assistant Secretary
Robert E. Alexander	Director [also President and a Director of Alexander's Markets]
William H. Dyer, Jr.	Director [also President and a Director of Lucky Stores, Inc.]
Robert E. Laverty	Director [also Chairman of the Board and President and a Director of Thriftimart, Inc.]
John R. Niven	Director [also Chairman of the Board and Chief Executive Officer and a Director of Purity Stores, Inc.]
Richard Ralphs	Director [also Chairman of the Board and Chief Executive Officer and a Director of Ralphs Grocery Company]
Leonard H. Straus	Director [also President and Chief Executive Officer and a Director of Thrifty Drug Stores Co. Inc.]
Fred Von der Ahe	Director [also Manager of Corporate Affairs of Von's Grocery Co.]
Drummond Wilde	Director [also a Vice President and Secretary of Safeway Stores, Incorporated]

Each of the executive officers has been in the Company's employ for more than five years.

See "Interest of Management in Certain Transactions" herein for information concerning the use of the Company's trading stamp services by the corporations with which certain of the directors named above are affiliated. After the first meeting of the Company's stockholders following completion of the offering to Users the Consent Decree prohibits the Company from having as an officer or employee any person who, while holding such position, also serves as an officer, director or employee of any person using trading stamp services; or, until June 5, 1977, having as a director any person who, while holding such position, also serves as an officer, director or employee of any person who was a stockholder of Blue Chip Stamp Company in 1956 or 1957.

Accordingly, under present circumstances, of the directors listed above only Messrs. Donald A. Koeppel and William F. Ramsey will be eligible to serve as directors after the first meeting of the Company's stockholders following completion of the offering to Users and until June 5, 1977. It is anticipated that Management will present a list of nominees for directors of the Company at such meeting, but the identity of such persons is not now known. Messrs. Donald A. Koeppel and William F. Ramsey expect to continue as officers and directors of the Company.

Remuneration of Directors and Officers

The following table shows the aggregate remuneration from the Company during the fiscal year ended March 2, 1968 to each director and each of the three highest paid officers of the Company whose aggregate direct remuneration exceeded $30,000, the estimated annual benefits upon retirement of each such director and officer, and the aggregate direct remuneration for such year for all directors and officers as a group.

Name of Individual or Identity of Group	Capacity in Which Remuneration Was Received	Direct Aggregate Remuneration	Estimated Annual Benefits Under Pension Plan(1)
Donald A. Koeppel	President	$ 63,750	$11,088
William F. Ramsey	Vice President and Controller	37,100	9,285
J. J. Koeppel, Jr.	Vice President	35,100	8,671
All directors and officers as a group		217,850	

(1) Based upon the assumption that the recipients continue to be employed by the Company at their current salaries until the normal retirement date and that the plan is continued without modification. Mr. J. J. Koeppel, Jr. resigned June 30, 1968.

Qualified Stock Option Plan

On March 21, 1968 the directors of the Company adopted a qualified stock option plan covering 110,400 shares of its Common Stock for officers and key employees of the Company as an additional means to retain and attract competent management personnel. It is intended that all options granted under the plan will be "qualified stock options" as that term is defined in Section 422 of the Internal Revenue Code of 1954. Under the plan options may be issued to such officers and key employees of the Company and its subsidiaries as the board of directors may approve from time to time. The purchase price under each option may not be less than 100% of the fair market value of the stock covered thereby on the date the option is granted. Options granted under the plan will not be transferable except by will or the laws of descent and distribution. The options must expire not later than five years from the date of grant. The options may be exercised in four substantially equal annual installments commencing one year from the date of grant and accumulating until the expiration of the option.

No options have as yet been granted pursuant to the plan. It is anticipated that options covering approximately 86,000 shares will be granted to approximately 30 employees of the Company at the fair market value of the stock on the date of grant.

It is anticipated that after the offering of Units has commenced, options will be granted to the following persons, among others:

	Number of Shares
Donald A. Koeppel	30,000
William F. Ramsey	21,000
All directors and officers as a group	54,500

Holders of Securities

As of July 16, 1968, each of Alexander's Markets, Von's Grocery Co., Lucky Stores, Inc., Thriftimart, Inc., Market Basket, Purity Stores, Inc., Ralphs Grocery Company, Thrifty Drug Stores Co. Inc., and Safeway Stores, Incorporated, owned beneficially and of record 62,400 shares (approximately 10% each) of the Company's Common Stock, after giving effect to the merger of Blue Chip Stamp Company into the Company. Pursuant to the Plan of Reorganization approved by the Court, each such stockholder is required to transfer its shares of the Company to a separate and independent trustee acceptable to the United States Department of Justice or the Court. Each such trustee will have the power to vote the shares held by it. Such stock can be sold at any time free from the trust, but otherwise must remain in trust until June 5, 1977.

As of July 16, 1968 (after giving effect to such merger), of the ten directors of the Company, all except Messrs. Donald A. Koeppel and William F. Ramsey were directors, officers or employees of such stockholders of the Company which in the aggregate owned 499,200 shares (approximately 80%) of its outstanding Common Stock.

Messrs. Donald A. Koeppel and William F. Ramsey are being offered an aggregate of 14,750 shares of the Company's Common Stock. See "Offer to Employees" herein.

LITIGATION

There are set forth below descriptions of the material legal proceedings in which the Company is now involved and in which it has been involved within the past eight years:

1. *United States of America v. Blue Chip Stamp Company, Alexander's Markets, Lucky Stores, Inc., Market Basket, Purity Stores, Inc., Ralphs Grocery Company, Safeway Stores, Incorporated, Thriftimart, Inc., Thrify Drug Stores Co., Inc., and Von's Grocery Co.* (United States District Court, Central District of California, Civil Action No. 63-1552-F).

On December 26, 1963, the United States filed a complaint against the Company and [illegible] of its twelve stockholders. The complaint alleged that eight of the nine stockholders were grocery chains whose 1962 sales constituted 30% of all sales of grocery stores in California and that they and another stockholder, the largest pharmacy chain in California, had since 1955 engaged in a conspiracy in restraint of trade and to monopolize the trading stamp business in California and had monopolized said trading stamp business in California, in violation of Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 and 2). The complaint sought an injunction against continuation of the activities charged and it prayed, in addition, that each of the defendant retailers be required to divest itself of ownership of all stock in the Company and be enjoined from controlling or attempting to control the Company; that the Company be enjoined from issuing any trading stamps to any of the defendant retailers and the defendant retailers be enjoined from issuing any Blue Chip trading stamps to their customers.

After the complaint and answers denying the material allegations in the complaint were filed, the Government and the defendants engaged in detailed negotiations in an attempt to settle the litigation by consent decree. During these negotiations the Government afforded an opportunity to

all defendants and to all other persons expressing an interest in the case to be heard. As a result of these negotiations, three separate consent decrees were proposed, each of which was lodged with the Court. In order that interested persons might have time to study each proposed decree and to make known their views with respect to it, there was annexed to each of the decrees a stipulation providing that all signatory parties consented to entry of the particular decree after 30 days unless the Government withdrew its consent during the 30-day period.

Two prior proposed consent decrees which were approved by the government and consented to by all but two of the defendants were lodged with the Court. After considering objections the government withdrew its consent to the first proposed decree and the Court refused to approve the second proposed decree.

On April 28, 1967, a third proposed decree was lodged with the Court. This was consented to by all parties to the action and was approved by the State of California, California Grocers Association and Certified Grocers of California, Ltd. Notice was given to all persons who had previously appeared in the proceedings, including those who had appeared as "friends of the Court". After briefs in favor of and opposed to entry of this proposed decree had been filed by various persons, the decree was entered as a Final Judgment on June 5, 1967.

Thereafter, on June 19, 1967, a group of service station operators (see also *Twyman et al. v. Blue Chip Stamp Company et al.*, hereinafter) filed a motion to intervene in the action and to vacate the judgment which was entered June 5, 1967. On July 12, 1967, Thrifty Shoppers Scrip Co., a trading stamp company, filed a similar motion to intervene and to vacate, and on July 14, 1967, Raley's, Inc., a stockholder in the Company (but not a defendant in the action) and a user of a different trading stamp service, filed a motion to intervene. Each of these proposed intervenors then had pending before the same Court an action under the antitrust laws against the Company and other defendants, each of which complaints sought damages for alleged violations of Sections 1 and 2 of the Sherman Act. Each of these actions now has been settled and dismissed. (See discussion of these actions below.)

Following the filing of briefs and the hearing of oral argument, the Court on July 31, 1967 entered an order denying all of the motions to intervene and to vacate the judgment. Appeals from these orders by Twyman et al. and Thrifty Shoppers Scrip Co. were filed with the United States Supreme Court, which on January 15, 1968 affirmed the decision of the District Court.

On August 3, 1967, the Company and the other defendants in this action lodged with the District Court a proposed Plan of Reorganization of the Company in compliance with the Final Judgment. Pursuant to the said Plan of Reorganization (as the same was modified and approved by the Court) the Units described in this Prospectus are being offered.

Under the terms of the Final Judgment and the Plan of Reorganization Blue Chip Stamp Company was merged into Blue Chip Stamps, and by the terms of the Final Judgment the Company is:

a. Enjoined and restrained from:

(1) Refusing to provide a trading stamp service or imposing any limitation on such service to any person because of: (i) the presence in the same locality of any establishment operated by another person using the Company's stamp service; (ii) the rate of issue employed by such person in offering the Company's or any other person's stamps; or (iii) the use by such person of any other trading stamp service;

(2) Coercing or compelling any person (i) to limit the rate of issue employed in offering the Company's or any other person's stamps; or (ii) to refrain from using any other trading stamp service;

(3) Having as an officer or employee any person, who, while holding such position, also serves as an officer, director, or employee of any person using trading stamp services, or from having, as a director after the first meeting of the Company's stockholders following completion of this offering to Users and until June 5, 1977, any person who, while holding such a position, also serves as an officer, director or employee of any person who was a stockholder of Blue Chip Stamp Company in 1956 or 1957.

b. Ordered and directed, within 30 months after completion of the reorganization, to present for the approval of the Court a plan which shall include the following terms:

(1) The Company shall offer for sale one-third of its then existing trading stamp business in the State of California. The business to be offered for sale shall be located within a contiguous geographic area within Southern California.

(2) A proposed purchaser of the one-third of the trading stamp business of the Company shall be permitted to acquire that portion of the business only upon the condition that it enters its appearance in the action described above and agree (i) that it will be bound by the same provisions referred to in subparagraphs (1), (2) and (3) above which are applicable to the Company, and (ii) to engage in the trading stamp business for a reasonable period of time. In addition, the purchaser shall have the right, if it so elects, to redeem within the contiguous area stamps theretofore issued by the Company for a period of one year following the consummation of a sale.

(3) During the period of one year following the consummation of a sale of the one-third of its business, the Company is prohibited from (i) knowingly allowing any person operating retail establishments in the contiguous area to issue Blue Chip stamps to customers of such establishments; or (ii) furnishing Blue Chip stamps to any person with knowledge that the stamps will be issued to customers at any retail establishment in the contiguous area; or (iii) otherwise engaging in the trading stamp business in the contiguous area except that, if the purchaser does not elect to redeem Blue Chip stamps or if the purchaser fails to perform in accordance with his redemption obligations, the Company shall have the right to redeem its outstanding stamps in said area. (Following the one year period, the Company is required to offer its trading stamp service in the contiguous area.)

Although the Company cannot predict with any degree of certainty what the ultimate effect will be of a sale of one-third of its trading stamp business in California, where operations account for approximately 99% of the Company's total stamp service income, and the prohibition against competing for a period of one year with the purchaser, it is anticipated that such sale and prohibition will have a materially adverse effect on the Company's net income from its trading stamp business. (See also "Other Potential Liability" herein.)

The Consent Decree also prohibits each of the retailer defendants after the first meeting of the Company's stockholders following completion of this offering to Users and until June 5, 1977:

(1) From having as an officer, director, or employee any person who, while holding such position, also serves as an officer, director or employee of the Company; or

(2) From exercising any right which it might acquire to vote for the election of any official of the Company; provided that a retailer defendant may cause such right to be exercised independently by a financial institution or other third party acceptable to plaintiff or approved by the Court.

2. *The Signal Companies, Inc. and Regal Stations, Inc. v. Blue Chip Stamp Company* (United States District Court, Central District of California, No. 68-927-H.P.)

On June 3, 1968 The Signal Companies, Inc. (formerly Signal Oil and Gas Company, hereinafter "Signal") which markets petroleum products in California under the trade names "Hancock", "Norwalk" and "Advancec" and Signal's wholly owned subsidiary Regal Stations, Inc. (hereinafter "Regal") which markets petroleum products in California under the trade name "Regent" filed an action against the Company. The complaint alleges that the Company violated Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 and 2) to the alleged injury to Regal in the alleged sum of $5,000,000 and to the alleged injury to Signal in the alleged sum of $4,000,000. The complaint further alleges that the Company violated the Robinson-Patman Act to the alleged injury to Regal in the alleged sum of $250,000. The complaint prays that the plaintiffs recover treble the amount of their alleged damages. The Company has filed its answer denying all material allegations of the complaint. No prediction can be made as to the ultimate outcome of this litigation.

3. *EZY Cash Stamp Company, Inc. v. Blue Chip Stamp Company* (United States District Court, Northern District of California, No. 50143).

On October 16, 1968 EZY Cash Stamp Company, Inc., a trading stamp company which was organized in 1965 by a group of merchants in the San Jose, California area, filed an action against the Company. The complaint alleges that the Company violated Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 and 2) to the alleged injury of the plaintiff. The complaint alleges that the plaintiff has been injured in an amount not yet ascertained and states that when the plaintiff ascertains the amount of its alleged injury it will seek leave of court to amend the complaint accordingly. The complaint prays that plaintiff recover treble the amount of the damages which plaintiff will claim to have suffered. The Company will file an answer which denies all material allegations of the complaint. No prediction can be made as to the ultimate outcome of this litigation.

4. Settlements and Other Litigation.

a. *Twyman, et al. v. Blue Chip Stamp Company, et al.* (United States District Court, Central District of California, Civil Action No. 66-1522-H.P.); *Adaire, et al. v. Blue Chip Stamp Company, et al.* (United States District Court, Central District of California, Civil Action No. 68-928-H.P.).

The *Twyman* action was filed in February 1966 as a purported class action on behalf of service stations in the State of California owned and operated independently of the oil companies and distributors whose products they distributed. The *Adaire* case was filed June 3, 1968 as a "protective" action. Damages were claimed in these two actions in the sum of $27,787,900, for alleged violations of the Sherman Act and $6,210,358 for alleged violations of the Robinson-Patman Act, which it was prayed be trebled. On July 23, 1968, the *Twyman* and *Adaire* actions were settled for $852,855, and both complaints were dismissed with prejudice.

b. On June 3, 1968 the Company made a settlement with The Sperry and Hutchinson Company in the sum of $6,000,000. But for such settlement The Sperry and Hutchinson Company would probably

have filed its complaint seeking alleged damages in the sum of $38,000,000 trebled to $114,000,000. While in the opinion of counsel for the Company substantial defenses would have existed as to the threatened action, no prediction could be made as to the ultimate outcome if the action had been filed. In the judgment of the Company valid business considerations warranted the settlement in order to avoid protracted and expensive litigation.

c. The Raley's Litigation.

(i) *Raley's, a corporation, a stockholder of Blue Chip Stamp Company, a California corporation, for itself and for all other stockholders of said corporation similarly situated and on behalf of Blue Chip Stamp Company v. Alexander's Markets, et al.* (United States District Court, Central District of California, Civil Action No. 64-660-H.P.).

This purported to be a stockholder's derivative action brought by plaintiff which then held approximately 2% of the stock of Blue Chip Stamp Company on behalf of the Company, which was a nominal defendant, and against various of the present and former stockholders, officers and directors of the Company. There were only two other stockholders. They were not named as defendants in the action, and they (namely, Louis Stores, Inc. and All-American Markets, Inc.) filed affidavits with the Court that neither of them had authorized nor did they desire Raley's or its counsel of record in the action, or any of them, to represent them, or to appear for them or on their behalf in said action, and disclaiming such representation or any attempt at such representation, and advising that they did not desire to be bound by any judgment in said action or in any manner or to any extent to be held liable for any costs or expenses or attorneys' fees incurred or to be awarded therein.

The complaint alleged that certain present or former officers, directors and stockholders had violated Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 and 2) to the injury of the Company.

The prayer of the complaint requested judgment for the benefit of the Company a) in the sum of $2,000,000 which the complaint alleged was improperly distributed by way of rebate to licensees, b) for the amount of lost profits to the Company resulting from an alleged improper reduction of prices, c) for recovery of the expenses incurred by it for attorney's fees, court costs, or otherwise incurred in defense of all antitrust actions brought against the Company and for the amount paid by way of settlement or on judgment on said actions, and d) for all other damages allegedly suffered by the Company as a result of the alleged restraints of trade and competition. The complaint further prayed that the amount of the alleged damages be trebled; that the defendant shareholders be required to divest themselves of ownership of all stock in the Company and be required to transfer the stock to the Company for its par value; that the defendants be enjoined from any further distribution of earnings or funds by way of rebate or otherwise, except as a dividend; and for attorneys' fees and costs of suit. The Company and all of the other defendants filed answers to the complaint which denied that the plaintiff had any right to recover in the action.

(ii) *Raley's v. Blue Chip Stamp Company, et al.* (Los Angeles County Superior Court No. 933354).

On June 3, 1968 Raley's, the same minority stockholder, filed this action against Blue Chip Stamp Company, Blue Chip Stamps, the "Retailer defendants" referred to above under *United States of America v. Blue Chip Stamp Company*, and against the present and certain of the past directors of Blue Chip Stamp Company. The complaint prayed that the plaintiff be granted an injunction enjoining the defendants from (a) proceeding with the merger or transferring the assets of Blue Chip Stamp

Company to Blue Chip Stamps or any other company; (b) from exchanging stock of Blue Chip Stamp Company for stock of Blue Chip Stamps or any other Company; (c) from dissolving Blue Chip Stamp Company. The complaint also sought an Order compelling defendants to issue to the plaintiff 42 shares of Blue Chip Stamp Company stock at $100 par value per share. In addition the complaint prayed for damages for purported fraud in the sum of $2,500,000 and punitive damages of $1,000,000. On June 12, 1968 the Superior Court entered its order denying plaintiff's motion for a preliminary injunction to prevent the merger, the transfer of assets and exchange of stock.

(iii) *Raley's, Inc. v. Volk, et al.* (Los Angeles County Superior Court No. 931757).

On May 6, 1968, Raley's, a minority stockholder of Blue Chip Stamp Company, filed a Petition for Writ of Mandate against the Commissioner of Corporations of the State of California seeking to have set aside the decision of the said Commissioner which found, in effect, that the proposed issuance of securities following the merger is fair, just and equitable and authorized the merger of Blue Chip Stamp Company into Blue Chip Stamps. Blue Chip Stamp Company and Blue Chip Stamps were named as Real Parties In Interest in this action and appeared in opposition to the said Petition. On June 21, 1968 the Superior Court signed its Findings of Fact and Conclusions of Law and on June 26, 1968 entered its Judgment denying the Petition for Writ of Mandate. On July 12, 1968 the State District Court of Appeal denied the application of Raley's for a stay of the Commissioner's decision, and the merger was consummated on July 16, 1968.

On August 8, 1968 the Company settled all the foregoing *Raley's* litigation and obtained a dismissal with prejudice thereof, together with a general release of all claims. Under the terms of the settlement the Company paid the sum of $800,000 to Raley's. Raley's has sold all of its stock of the Company.

d. *Thrifty Shoppers Scrip Co. v. Blue Chip Stamp Company, et al.* (United States District Court, Central District of California, Civil Action No. 67-596-H.P.)

This action was filed on April 25, 1967. The complaint alleged that the Company and the same stockholders who were named defendants in *United States of America v. Blue Chip*, discussed above, violated the Sherman Act (15 U.S.C. §§ 1 and 2) to the alleged injury of the plaintiff in the alleged sum of $1,000,000. The complaint prayed for treble the alleged damages. On June 6, 1968 this action was settled for the sum of $275,000 and the complaint was dismissed. In the judgment of the Company valid business considerations warranted the settlement.

e. *Purity Stores, Inc. v. Blue Chip Stamp Company* (United States District Court, Northern District of California, No. 41698).

On August 12, 1963, Purity Stores, Inc., a stockholder in Blue Chip Stamp Company, filed an action for injunction against that company alleging that the Company and certain non-defendant alleged co-conspirators had violated Sections 1 and 2 of the Sherman Act (15 U.S.C. §§ 1 and 2) by agreeing to control the terms and conditions of the distribution of the defendant's stamps, by agreeing to maintain the defendant in a dominant position in the trading stamp business and by terminating Purity's license to use Blue Chip stamps. The defendant filed an answer to the complaint denying the allegations thereof but admitting that it had terminated the written agreement between it and plaintiff for the use by plaintiff of the defendant's trading stamp service because of the plaintiff's failure to conform to the defendant's then policy not to permit its licensees to engage in bonus or multiple-stamp programs.

On the application of the plaintiff in that action, the Court on August 13, 1963 issued a temporary restraining order, and on August 30, 1963 entered a Judgment For Preliminary Injunction providing

that pending the final hearing and determination of the action by the Court, or until further order of the Court, the defendant was enjoined from terminating the plaintiff's license contract and ordered to continue to supply its trading stamps to plaintiff without the imposition of any limit or restriction upon the rate of issue thereof. (As noted above in the discussion of *United States v. Blue Chip Stamp Company, et al.*, the Final Judgment therein, entered June 5, 1967, prohibits the Company from imposing any limit or restriction on the rate of issue of its stamps.)

The *Purity* action did not proceed further to a final hearing or determination on the merits. It was dismissed without prejudice, by stipulation of the parties filed July 25, 1966.

f. Claims for services and expenses.

Thriftimart, Inc., a stockholder of the Company, filed a claim in proceedings ancillary to *United States of America v. Blue Chip Stamp Company, et al.* for compensation for services allegedly benefitting the Company in that action. Comparable claims were filed by two other claimants, and claims were also asserted by four of the Company's stockholders for reimbursement of their out-of-pocket expenses in the event that any of the other claimants should be compensated. On October 21, 1968 the Company agreed to and the United States District Court approved a settlement of all such claims as follows:

Name of Claimant	Amount of Settlement
Thriftimart, Inc.	$ 250,000.00
California Grocers Association and Certified Grocers of California, Ltd.	200,000.00
Safeway Stores, Incorporated	24,604.66
Purity Stores, Inc.	36,311.53
Lucky Stores, Inc.	20,001.27
Market Basket	22,451.72
Howard, Prim, Smith, Rice & Downs (then attorneys for the plaintiffs in *Twyman, et al. v. Blue Chip Stamp Company* — see page 21 of prospectus)	5,000.00
Total	$ 558,369.18

In the judgment of the Company valid business considerations warranted these settlements. In the opinion of counsel for the Company any further such claims, if asserted against the Company, would be rejected by the Court.

g. In addition to the actions under the antitrust laws described above, the Company has been named a defendant in five additional actions which have alleged that the Company and its stockholders violated Sections 1 and 2 of the Sherman Act, to the injury of the plaintiffs in such actions. Four of such actions were settled and disposed of by the Company prior to trial, each for a sum that, in the opinions of the Company and its counsel, was less than would have been the cost of defense thereof. The aggregate of such settlements was not a material amount. In the fifth action referred to, the Company made a motion for summary judgment in its favor on the theory that, even if it should be assumed that there was an illegal combination and conspiracy, this plaintiff (which had been engaged in the advertising business) was not within the target area of the alleged conspiracy and had no right to recover damages. The motion for summary judgment was granted and no appeal was taken from the judgment.

There have been two actions filed against the Company which alleged that the Company had violated the California Unfair Practices Act, as a result of its pricing structure, to the injury of the plaintiffs in such actions. One of the actions was settled for a nominal sum. In the other a judgment was entered in favor of the Company after trial, and no appeal was taken.

It is not possible to predict at this time whether additional actions such as those described above might be filed or the potential liability, if any, of the Company if such litigation should be instituted, although, in the opinion of counsel for the Company, it is very likely that further such actions would be barred by the statutes of limitations.

5. Indemnity of Officers, Directors and Stockholders.

Prior to the merger of Blue Chip Stamp Company into Blue Chip Stamps, Blue Chip Stamp Company had indemnified its past and present officers, directors and stockholders and agreed to hold them harmless from claims, costs, expenses and liabilities arising out of claims asserted against Blue Chip Stamp Company or those officers, directors or stockholders based upon the organization or operations of Blue Chip Stamp Company or the acts of such persons in connection therewith, including any based on alleged violations of the antitrust laws and any arising out of the Plan of Reorganization. The Merger Agreement provides that in consideration of the transfer to it of all of the assets of Blue Chip Stamp Company, the Company shall indemnify and hold harmless Blue Chip Stamp Company and its past and present officers, directors and stockholders from any such matters. In addition, the Company has agreed to indemnify and hold harmless its own present officers, directors and stockholders from any such matters. Such indemnities are limited in that they extend only to claims or liabilities which shall have been established by final judgment of a court of competent jurisdiction or by a compromise or settlement to which the Company shall have been a party or shall have given its written approval. In the opinion of Messrs. O'Melveny & Myers, counsel for the Company, the indemnity provisions should be held valid and enforceable under California law. Because, however, questions have been raised as to these matters, counsel have recommended to the Company and the Company has agreed that prior to making any payment under the indemnity provisions it will obtain a determination of a court of competent jurisdiction to the effect that such payment may be made and, thereafter, as to any future such payments, if the indemnity provisions shall have been held lawful, a favorable opinion of its general counsel to the effect that such payment may be made. It is not possible to predict whether the Company will ever be called upon to fulfill this undertaking, nor is it possible to predict the potential liability, if any, of the Company if it should be called upon to discharge its obligations as a result of this undertaking.

6. Effects of Pending Litigation and Claims.

In the opinion of Messrs. O'Melveny & Myers, counsel for the Company, it is unlikely that the aggregate ultimate liability of the Company, if any, with respect to the claims and the actions referred to above in this "Litigation" section which have not been settled, will be material in relation to the aggregate amounts asserted in said actions and claims. In their opinion it is also unlikely that such aggregate ultimate liability would have a materially adverse effect upon the ability of the Company to continue its business and operations. However, counsel can give no assurance that the ultimate liability or the effect on the Company's business and operations will be so limited. Counsel emphasize that the foregoing represents their present views only and that these views may change in the light of subsequent developments.

INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

During the period from March 1, 1964 through March 2, 1968, the following corporations, each of which owns approximately 10% of the outstanding stock of the Company and all but one of which has a representative on the Company's board of directors, accounted for the dollar volume of trading stamp services set forth opposite their respective names:

Name	Dollar Amount
Alexander's Markets	$ 1,511,044
*Lucky Stores, Inc.	4,911,625
*Market Basket	5,423,123
Purity Stores, Inc.	6,555,041
Ralphs Grocery Company	8,595,489
Safeway Stores, Incorporated	43,132,781
Thriftimart, Inc.	10,144,111
*Thrifty Drug Stores Co. Inc.	7,483,143
Von's Grocery Co.	14,435,110

* Not presently using the Company's trading stamp service.

See "Management" herein for relationship of the Company's directors with the foregoing corporations and for discussion of requirements of Consent Decree and Plan of Reorganization with reference to the eligibility of persons to serve on the Board of Directors.

DESCRIPTION OF DEBENTURES

The Debentures offered hereby are to be issued under an indenture (the "Indenture") to be dated as of December 1, 1968, between the Company and Bank of America National Trust and Savings Association, Los Angeles, California, Trustee. A copy of the Indenture substantially in the form in which it will be executed is filed as an Exhibit to the Registration Statement. The statements under this caption relating to the Debentures and the Indenture are summaries and do not purport to be complete. References are to the Indenture, and wherever particular provisions are referred to, such provisions are incorporated by reference as a part of the statement made, and the statement is qualified in its entirety by such reference. Wherever a defined term is indicated, the definition thereof is contained in the Indenture.

General

The Debentures will be issued in denominations of $100 and integral multiples thereof, in fully registered form only, will bear interest from date of initial issuance at the rate of interest stated in their title, will mature on November 30, 1978 and will not be secured by any lien. Interest will be payable quarterly at the rate of 6½% per annum on March 1, June 1, September 1 and December 1, to the persons (except in the case of Debentures called for redemption between the Regular Record Date and the next succeeding interest payment date) in whose names the Debentures are registered at the close of business on the Regular Record Date for such interest installment, which shall be the fifteenth day (whether or not a business day) of the month preceding such interest payment date. (Article Two.)

Subordination of Debentures

The Debentures are subordinated and subject in right of payment to the prior payment in full of Senior Indebtedness (as hereinafter defined). Prior to December 1, 1978 the Debentures are also subordinated and subject in right of payment to the prior payment in full of all Claims or Causes of Action (as hereinafter defined) or provisions for payment of such Claims or Causes of Action. (Section 4.01.)

The Indenture provides in general that upon any distribution of the assets of the Company upon any dissolution, winding up or liquidation, reorganization, readjustment, arrangement or similar proceeding relating to the Company or its property, and certain other events involving the assignment for the benefit of creditors or the marshalling of assets and liabilities of the Company, (a) all Senior Indebtedness then due shall first be paid in full or provision made for such payment before any payment is made on account of the principal of the Debentures, and (b) if such events occur prior to December 1, 1978, in addition all Claims or Causes of Action shall first be paid in full or provision made therefor or otherwise discharged before any payment is made on account of the principal of the Debentures.

By reason of such subordination, in the event of insolvency, creditors of the Company who are holders of Senior Indebtedness or Claims or Causes of Action having priority may recover more, ratably than holders of the Debentures; and creditors of the Company who are not holders of Senior Indebtedness, Claims or Causes of Action having priority, or the Debentures, may recover less, ratably than holders of Senior Indebtedness and Claims or Causes of Action having priority, and may recover more, ratably, than holders of the Debentures.

Claims or Causes of Action

The term "Claims or Causes of Action" includes at any time a) the amount of claims asserted in lawsuits against the Company or any past or present officer, director or stockholder based upon the organization or operations of Blue Chip Stamp Company, or the acts of its officers, directors or stockholders in connection therewith, including those based on alleged violations of antitrust laws and those arising out of the Plan of Reorganization and b) claims asserted by officers, directors or stockholders of the Company based upon indemnifications of the Company holding harmless such officers, directors or stockholders from liability arising out of the claims described in a) above.

Senior Indebtedness

The term "Senior Indebtedness" shall mean the principal of (and premium, if any) and interest on a) indebtedness of the Company incurred, assumed or guaranteed, which is for money borrowed by the Company from banks, insurance companies or other lending institutions, b) renewals, extensions and refundings of any such indebtedness and c) the amount owing by the Company on Claims or Causes of Action (as defined above) as established by judgments of courts of competent jurisdiction or otherwise finally settled and agreed to by the Company.

Dividend Restrictions

The Indenture provides, in general, that the Company may not declare or pay any dividend or make any distribution (except in stock) or purchase, redeem, or otherwise acquire or retire for consideration, any of its stock a) if, during any fiscal year, such dividends or distributions would exceed 25%

of the net income of the Company for the preceding fiscal year, or b) if Claims or Causes of Action, as defined above, would exceed 50% of the Company's Stockholders' Equity or c) if the Company is in arrears in Sinking Fund payments.

Stockholders' Equity

The term "Stockholders' Equity" shall mean the stockholders' equity of the Company and its subsidiaries as determined in accordance with generally accepted accounting principles.

Redemption or Purchase

The Debentures are redeemable at any time commencing December 1, 1974 at the Company's option, as a whole or from time to time in part, upon mailing a notice of redemption not less than 30 nor more than 60 days prior to the date fixed for such redemption to the Debentureholders at their last registered addresses, at 100% of principal amount together with accrued interest to the date fixed for redemption, but the Company may not redeem, purchase or otherwise acquire any Debentures, if immediately thereafter Claims or Causes of Action (as defined above) would exceed 50% of the Stockholders' Equity of the Company.

Sinking Fund

Unless Claims or Causes of Action, as defined above, exceed 50% of the Stockholders' Equity of the Company, the Indenture requires the Company to provide for the retirement of 20% of the principal amount of the Debentures outstanding at the close of business on December 1, 1974, and on December 1, in each of the years 1975 to and including 1977, through the operation of the Sinking Fund, at the principal amount of the Debentures so retired with accrued interest to the date of redemption, provided, however, that the Company may, at its option, receive credit against Sinking Fund payments for a sum not in excess of the principal amount of (a) Debentures acquired by the Company and surrendered for cancellation, and (b) Debentures redeemed or called for redemption (otherwise than through the operation of the Sinking Fund). (Section 3.03).

The amount of any sinking fund payment in arrears shall be added to the next succeeding sinking fund payment obligation of the Company. The failure of the Company to make any sinking fund payment because of the existence of Claims or Causes of Action shall not constitute a default under the Indenture.

Federal Tax Consequences of Original Issue Discount

The Debentures, inasmuch as they are being offered as a Unit with the Common Stock, may be deemed to have been issued at an "original issue discount" as that term is defined in section 1232 of the Internal Revenue Code of 1954; that is, it may be deemed because of subsequent market valuation of the Debentures that the Unit purchase price allocable to the Debentures is less than their principal amount of $100. Users purchasing the Debentures may accordingly, upon a sale of such Debentures or upon redemption or retirement of such Debentures at a price in excess of their cost or other basis allocable to such Debentures, realize ordinary income rather than capital gains. The amount of ordinary income which might be realized is limited to a maximum amount equal to the difference between the original issue price allocable to the Debentures and their principal amount.

Events of Default, Notice of Waiver

The Indenture provides that, if an Event of Default specified therein shall have happened and be continuing, either the Trustee or the holders of 25% in principal amount of the Debentures then outstanding may declare the principal of all such Debentures to be due and payable. (Section 7.01.)

Events of Default are defined in the Indenture as being: default for 30 days in payment of any interest installment; default in payment of principal or, subject to the limitations under "Sinking Fund" herein, in the making of any sinking fund payment, when due; default for 90 days after notice to the Company by the Trustee or by the holders of 25% in principal amount of the outstanding Debentures in performance of any other covenant or agreement in the Indenture; and certain events of bankruptcy, insolvency and reorganization. (Section 7.01.)

The Indenture provides that the Trustee shall, within 90 days after the occurrence of a default, give to the Debentureholders notice of all uncured defaults known to it; provided that, except in the case of default in the payment of principal or interest on any of the Debentures or the making of any sinking fund payment, the Trustee shall be protected in withholding such notice if it in good faith determines that the withholding of such notice is in the interest of the Debentureholders. The term "default" for the purpose of this provision only shall mean the happening of any of the Events of Default specified above not including any grace period or any requirement for the giving of written notice. (Section 7.08.)

The Indenture contains a provision entitling the Trustee, subject to the duty of the Trustee during default to act with the required standard of care, to be indemnified by the holders of the Debentures before proceeding to exercise any right or power under the Indenture at the request of the Debentureholders. (Section 8.02.) The Indenture provides that the holders of a majority in principal amount of the outstanding Debentures may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee. (Section 7.07.)

The Indenture includes a covenant that the Company will file annually with the Trustee a certificate of no default, or specifying any default that exists. (Section 5.06.)

In certain cases, the holders of a majority in principal amount of the outstanding Debentures may on behalf of the holders of all Debentures waive any past default or Event of Default except, unless theretofore cured, a default in payment of the principal and premium, if any, or interest on any of the Debentures, or any sinking fund payment with respect thereto. (Sections 7.01 and 7.07.)

Modification of the Indenture

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of 66⅔% in principal amount of the outstanding Debentures, to execute supplemental indentures adding any provisions to or changing or eliminating any of the provisions of the Indenture or modifying the rights of the holders of Debentures, except that no such supplemental indenture may (i) extend the fixed maturity of any Debentures, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or modify the provisions of the Indenture with respect to the subordination of the Debentures without the consent of the holders of affected Debentures, or (ii) reduce the aforesaid percentage of Debentures, the consent of the holders of which is required for any such supplemental indenture. (Section 11.02.)

Concerning the Trustee and Paying Agents

Principal and interest will be payable at the Corporate Trust office of the Trustee in Los Angeles, California, which initially shall be the principal office of Bank of America National Trust and Savings Association. Debentures may also be presented to such office for transfer or exchange.

The Company maintains banking relationships in the ordinary course of business with Bank of America National Trust and Savings Association.

DESCRIPTION OF COMMON STOCK

The Company's Articles of Incorporation, as amended, authorizes a total of 1,400,000 shares of one class designated "Common Stock," of the par value of $.33⅓ per share.

The holders of the shares of Common Stock from time to time outstanding have full voting rights, one vote for each share held of record and may apply the principle of cumulative voting at any election of directors. They are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor. Upon liquidation, dissolution or winding up of the Company, the assets legally available for distribution to stockholders shall be distributed ratably among the holders of the Common Stock at the time outstanding. Holders of Common Stock have no preemptive or other subscription or conversion rights, and no liability for further calls upon shares. The Common Stock is not subject to assessment.

See "Management" — "Holders of Securities" herein for limitation on voting rights of certain stockholders.

Reference is made to "Dividend Restrictions" under the caption "Description of Debentures" herein for a statement of the limitations imposed on payment of dividends by the Indenture relating to the Company's 6½% Subordinated Debentures due 1978.

Bank of America National Trust and Savings Association, Los Angeles, California, is the transfer agent and Union Bank, Los Angeles, California is the registrar for the Company's Common Stock.

LEGAL OPINIONS

Legal matters in connection with the securities offered hereby will be passed upon for the Company by Messrs. O'Melveny & Myers, 433 South Spring Street, Los Angeles, California 90013.

EXPERTS

The financial statements and schedules included in this prospectus and elsewhere in the Registration Statement have been included in reliance upon the opinion of Price Waterhouse & Co., independent accountants, and in reliance upon the authority of such firm as experts in auditing and accounting

OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Blue Chip Stamps

In our opinion, subject to the possible material adverse effect on the Company's financial position of the litigation referred to in Note 8, the accompanying balance sheet, together with the statement of income and retained earnings appearing elsewhere in this prospectus, present fairly the financial position of Blue Chip Stamps at March 2, 1968 and the results of its operations from July 1, 1960 to March 2, 1968 (after giving retroactive effect to the merger described in Note 1), in conformity with generally accepted accounting principles consistently applied. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.

Los Angeles
April 16, 1968 (except as to Notes 1
and 8 for which date is August 8, 1968)

BLUE CHIP STAMPS
BALANCE SHEET — March 2, 1968

ASSETS

Current assets:	
Cash	$ 2,889,000
Marketable securities (Note 3)	70,245,000
Accounts receivable	4,369,000
Inventories (Note 4)	13,275,000
Prepaid taxes and other expenses (Note 2)	2,372,000
Total current assets	93,150,000
Property, fixtures and equipment, net (Note 5)	2,622,000
	$95,772,000

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Accounts payable	$ 4,149,000
Accrued compensation	716,000
Federal income tax	591,000
Liability for unredeemed trading stamps (Note 2)	67,256,000
Total current liabilities	72,712,000
Commitments and contingent liabilities (Notes 7 and 8)	
Stockholders' equity (Notes 1 and 8):	
Common stock, par value $.33⅓ per share — Authorized — 1,400,000 shares Issued and outstanding — 621,600 shares	207,000
Retained earnings	22,853,000
Total stockholders' equity	23,060,000
	$95,772,000

BLUE CHIP STAMPS
NOTES TO FINANCIAL STATEMENTS
March 2, 1968

NOTE 1 — Reorganization:

Pursuant to a Consent Final Judgment entered in the United States District Court, Central District of California, on June 5, 1967, Blue Chip Stamp Company was merged into the Company on July 16, 1968. The accompanying financial statements give retroactive effect to this merger as of March 2, 1968.

In order to comply with the Plan of Reorganization (see "Company" and "Plan of Reorganization" herein) the Company has adopted a qualified stock option plan (see "Management" — "Qualified Stock Option Plan" herein) and intends to grant options pursuant thereto to key employees covering an aggregate of 110,400 shares of its Common Stock. In addition, the Company intends to offer to sell 27,600 shares of its stock to certain of its employees at $.33⅓ per share and plans to make an offering of approximately 621,600 shares of its Common Stock to users of Blue Chip stamps other than incentive program clients and users who are presently stockholders. This offering will be made in Units, each consisting of three shares of Common Stock and $100 in principal amount of its 6½% Subordinated Debentures due 1978, for a cash consideration of $101. See "Offer to Users" and "Offer to Employees" herein.

NOTE 2 — Accounting practices:

The Company recognizes stamp service income upon issuance of its trading stamps and provides a liability account for unredeemed trading stamps consisting of the cost of merchandise and related redemption expenses. For a number of years the Company has made statistical evaluations of its redemptions. Based upon analysis of such evaluations the Company presently estimates that 97.5% of all stamps issued will ultimately be redeemed. Certain expenses related to redemptions are deducted for federal income tax purposes when stamps are redeemed. The increase (decrease) in the provision for federal income taxes attributable to the difference between the provision for redemption expenses when stamps are issued and the redemption expenses incurred when stamps are redeemed amounted to ($130,000) and ($152,000) in the years ended June 30, 1961 and 1962, respectively; to $34,000 in the eight months ended March 2, 1963; and to ($192,000), ($77,000), ($52,000), $57,000 and ($292,000) in the fifty-two/fifty-three week periods ended in 1964 through 1968, respectively. At March 2, 1968, the accumulated prepaid federal income taxes attributable to the difference described above amounted to $1,529,000.

At March 2, 1968 the liability for unredeemed trading stamps of $67,256,000 includes $57,375,000 for the cost of merchandise and $9,881,000 for redemption expenses.

NOTE 3 — Marketable securities:

Marketable securities are stated at cost (less amortization of bond premium). The composition of marketable securities at March 2, 1968 is set forth below:

	Cost	Market Value
Time deposits	$ 5,082,000	$ 5,082,000
Commercial paper	2,918,000	2,923,000
United States Treasury Bills	4,868,000	4,916,000
State and municipal obligations	43,573,000	38,363,000
Preferred and common stocks	13,804,000	12,803,000
	$70,245,000	$64,087,000

NOTE 4 — Inventories:

Opening and closing inventories, principally merchandise, for the three fifty-two/fifty-three week periods ended March 2, 1968 are as follows:

February 27, 1965	$ 8,985,000
February 26, 1966	10,889,000
March 4, 1967	14,269,000
March 2, 1968	13,275,000

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 — Property, fixtures and equipment:

Property, fixtures and equipment and related accumulated depreciation and amortization at March 2, 1968 are as follows:

	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 195,000		$ 195,000
Buildings	803,000	$ 200,000	603,000
Furniture, fixtures and equipment	3,419,000	1,919,000	1,500,000
Leasehold improvements	850,000	526,000	324,000
	$5,267,000	$2,645,000	$2,622,000

The Company provides for depreciation principally on the straight-line basis. Estimated lives used in computing depreciation and amortization are as follows:

Buildings	20 to 33 years
Furniture, fixtures and equipment	3 to 10 years
Leasehold improvements	lives of leases

Expenditures for renewals and betterments are capitalized; maintenance and repair costs are charged to income as incurred. When assets are retired or otherwise disposed of, the accounts are relieved of applicable cost and accumulated depreciation and amortization and any gain or loss on disposal is credited or charged to income.

NOTE 6 — Pension plan:

In 1965 the Company adopted a noncontributory pension plan which covers all employees meeting certain eligibility requirements. Charges to operations for the cost of the plan since adoption were as follows:

Fiscal year ended:	
February 26, 1966	$189,000
March 4, 1967	201,000
March 2, 1968	212,000

At March 2, 1968 the liability for unfunded past service benefits amounted to approximately $196,000.

NOTE 7 — Rental payments under long term leases:

As of March 2, 1968 the Company had minimum annual rental commitments, exclusive of taxes, insurance and other expenses payable directly by the Company, as follows:

Under leases expiring through March 2, 1973	$ 675,000
Under leases expiring from March 3, 1973 through March 2, 1978	672,000
Under leases expiring subsequent to March 2, 1978	176,000
	$1,523,000

NOTE 8 — Litigation and settlements subsequent to date of financial statements:

See "Litigation" herein for possible material adverse effects of litigation (including sale of one-third of the Company's California trading stamp business) in which the Company and its officers, directors and stockholders are now or may become parties and for settlements in the amount of $7,928,000 ($3,954,000 net of applicable income taxes) of four claims against the Company subsequent to the date of the financial statements.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 9 — Supplementary profit and loss information:

	Charged Directly to Income		
	Cost of Redemptions	Other	Total
	(In Thousands of Dollars)		
Fifty-two weeks ended February 26, 1966:			
Maintenance and repairs	$ 190	$ 24	$ 214
Depreciation and amortization	350	34	384
Taxes, other than income taxes —			
Payroll	305	49	354
California franchise		186	186
Real estate and personal property	205	20	225
Other	44	4	48
Rents	1,102	20	1,122
Fifty-three weeks ended March 4, 1967:			
Maintenance and repairs	274	35	309
Depreciation and amortization	339	32	371
Taxes, other than income taxes —			
Payroll	407	71	478
California franchise		392	392
Real estate and personal property	239	24	263
Other	55	5	60
Rents	1,335	22	1,357
Fifty-two weeks ended March 2, 1968:			
Maintenance and repairs	286	32	318
Depreciation and amortization	436	36	472
Taxes, other than income taxes —			
Payroll	377	71	448
California franchise		380	380
Real estate and personal property	322	20	342
Other	47	3	50
Rents	1,476	24	1,500

There were no charges for royalties or management and service contract fees.

PRELIMINARY PROSPECTUS DATED NOVEMBER 10, 1969

PROSPECTUS

1,821,240 Shares

BLUE CHIP STAMPS

Common Stock

(Par Value $1.00 Per Share)

The shares of Common Stock offered hereby are outstanding shares to be sold to the Underwriters by certain stockholders of the Company as stated herein under "Selling Stockholders". The Company will not receive any of the proceeds of the sales.

Prior to this offering there has been a limited market for the Common Stock. See "Price Range of Common Stock". The high bid price for the Common Stock in the over-the-counter market as reported for November 6, 1969 was 24¾.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts	Proceeds to Selling Stockholders*
Per Share	$	$	$
Total	$	$	$

* Before deducting expenses payable by the Selling Stockholders estimated at $..... In addition the Company has agreed to pay expenses estimated at $.....

The Common Stock is offered subject to prior sale when, as and if delivered to and accepted by the Underwriters named herein, and subject to the approval of certain legal matters by Messrs. Burke, Williams & Sorensen, counsel for the Company, Messrs. O'Melveny & Myers, counsel for the Selling Stockholders, and Messrs. Brown, Wood, Fuller, Caldwell & Ivey, counsel for the Underwriters. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part.

Merrill Lynch, Pierce, Fenner & Smith

Incorporated

, 1969

A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Until , 1970 (40 days after the first offer of the securities offered hereby to the public after the effective date of the Registration Statement), all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligation of dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

No person has been authorized to give any information or to make any representation not contained in the Prospectus in connection with the offering described herein, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company, the Selling Stockholders or the Underwriters. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make an offer or solicitation in such jurisdiction. Neither delivery of this Prospectus nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Company since the date hereof.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE COMPANY

Blue Chip Stamps is engaged primarily in furnishing a trading stamp service to retail merchants and their customers. At August 30, 1969, approximately 21,000 retailers were distributing Blue Chip stamps in over 23,000 retail outlets in California and Nevada. The Company maintains 83 redemption stores where savers of Blue Chip stamps may redeem them for a wide variety of merchandise or for cash. The Company is also engaged in the development of incentive and premium programs and, to a limited extent, supermarket games and sales continuity promotions.

The Company's principal offices are located at 5801 South Eastern Avenue, Los Angeles, California. It was incorporated in California on February 5, 1968 and succeeded by merger on July 16, 1968 to the business of Blue Chip Stamp Company, which had been incorporated in California in 1956 by a group of retail grocery chains. References to the "Company" are to Blue Chip Stamps and to its predecessor, unless the context provides otherwise.

In December 1963 the United States Department of Justice filed an action under the Sherman Act against Blue Chip Stamp Company and nine of its twelve stockholders. In June 1967 a consent final judgment (the "Consent Decree") was entered in the United States District Court providing for the reorganization of Blue Chip Stamp Company and requiring, among other things, that within 30 months after completion of the reorganization the Company present to the Court a plan for the sale of one-third of the Company's trading stamp business in the State of California. See "Business — Consent Decree and Plan of Reorganization" and "Business — Effects of Consent Decree on Company's Operations".

CAPITALIZATION

The table below sets forth the capitalization of the Company as of October 15, 1969:

Title of Class	Amount Authorized	Amount Outstanding
6½% Subordinated Debentures due 1978	$20,720,000	$10,840,400
Common Stock, par value $1.00 per share	7,000,000 shs.	4,871,110 shs.(1)

(1) Not including 552,000 shares reserved for issuance pursuant to the Company's qualified stock option plan, of which options for 332,500 shares have been granted but not exercised. See "Management".

On October 7, 1969 the Company effected a 5 for 1 split of its Common Stock. All references in this Prospectus to shares of the Company's Common Stock have been adjusted to reflect that stock split.

See Note 7 to the financial statements for information concerning the Company's obligations under long term leases.

STATEMENT OF INCOME

The following statement (except as it relates to the unaudited twenty-six week period ended Aug 31, 1968) has been examined by Price Waterhouse & Co., independent accountants, whose opinion there appears elsewhere in this Prospectus. The statement should be read in conjunction with the oth

	Fiscal Year Ended		Eight Months Ended
	June 30 1961	June 30 1962	Mar. 2 1963
Revenues:			
Stamp service income (Note 3)	$48,450	$57,038	$43,714
Income from marketable securities:			
Interest	330	548	535
Dividends	71	130	103
Gains (losses) on sale of securities, net	7	66	14
Other income	209	282	248
	49,067	58,064	44,614
Costs and expenses:			
Cost of redemptions, consisting of merchandise and related expenses (Note 3)	40,088	48,047	35,065
Stamp pads and saver books	1,825	2,105	1,560
Advertising and other selling expenses	1,875	2,233	1,174
General and administrative expenses	874	1,297	1,097
Interest on debentures (Note 3)			
Interest on income tax settlements	391	12	23
Patronage rebate			
	45,053	53,694	38,919
Income before income taxes and extraordinary item	4,014	4,370	5,695
Provision for income taxes (Note 3)	2,171	2,006	2,891
Income before extraordinary item	1,843	2,364	2,804
Extraordinary item (Note 8)			
Net income	$ 1,843	$ 2,364	$ 2,804
Average shares outstanding*	3,108	3,108	3,108
Per share*:			
Income before extraordinary item	$ .59	$ .76	$ .90
Extraordinary item (Note 8)			
Net income (loss)	$ .59	$ .76	$ .90
Cash dividend (Note 9)			

The note references pertain to notes to the financial statements included elsewhere in this Prospectus.

* Adjusted to give effect to the October 7, 1969 5-for-1 stock split. In addition, per share amounts have been adjuste to provide for the dilutive effect of outstanding stock options granted February 13, 1969.

The decline in net income for the fiscal year ended February 29, 1964 was due primarily to redu tions in the amounts charged for the Company's trading stamp service and to a patronage rebate made retailers. The decline in net income for the fiscal year ended March 2, 1968 was due primarily to t additional costs resulting from operation of a distribution center at Rancho Cordova, California com mencing September 1966; the distribution center was closed in June 1968.

inancial statements and notes thereto included elsewhere in this Prospectus. In the opinion of the Com- any, all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of e results of operations for the twenty-six weeks ended August 31, 1968 have been included.

Fiscal Year Ended						Twenty-Six Weeks Ended	
Feb. 29 1964	Feb. 27 1965	Feb. 26 1966	Mar. 4 1967	Mar. 2 1968	Mar. 1 1969	Aug. 31 1968	Aug. 30 1969
(In Thousands Except for Amounts per Share)						(Unaudited)	
$68,706	$72,305	$81,594	$92,028	$91,757	$108,449	$52,525	$63,395
1,013	1,191	1,410	1,671	1,715	2,306	1,098	1,655
262	299	317	458	523	458	229	395
129	304	31	(84)	90	332	14	56
380	461	449	603	579	938	310	605
70,490	74,560	83,801	94,676	94,664	112,483	54,176	66,106
59,480	65,070	71,470	81,854	83,797	94,703	45,531	54,140
2,507	2,320	2,010	2,041	1,942	2,273	1,142	1,363
2,176	2,170	1,829	2,091	2,221	2,376	1,063	1,060
1,538	1,338	1,217	1,899	1,938	2,112	780	1,029
					255		531
1,901							
67,602	70,898	76,526	87,885	89,898	101,719	48,516	58,123
2,888	3,662	7,275	6,791	4,766	10,764	5,660	7,983
1,073	1,158	2,809	2,507	1,348	5,120	2,965	3,980
1,815	2,504	4,466	4,284	3,418	5,644	2,695	4,003
					(3,651)	(3,428)	(378)
$ 1,815	$ 2,504	$ 4,466	$ 4,284	$ 3,418	$ 1,993	$ (733)	$ 3,625
3,108	3,108	3,108	3,108	3,108	3,530	3,108	4,871
$ .58	$ .81	$1.44	$1.38	$1.10	$ 1.60	$ .87	$ .80
					(1.03)	(1.11)	(.08)
$ .58	$ .81	$1.44	$1.38	$1.10	$ .57	$ (.24)	$ .72
							$ .03

The Company is of the opinion that the practice of many retailer users of giving multiple stamps, which has been widespread in portions of its territory since the summer of 1968, has contributed significantly to subsequent increases in revenues and earnings. The Company cannot predict how long this condition will exist. In addition, revenues, earnings and earnings per share are not necessarily indicative of future revenues, earnings and earnings per share in view of the adverse effects of (1) a pos- sible substantial decrease in the use of the Company's trading stamp service particularly by Safeway Stores, Incorporated and other large users and (2) a sale in the future of one-third of the Company's trading stamp business. See "Business — Retailer Users", "Business — Use of Stamps by Selling Stock- holders" and "Business — Effects of Consent Decree on Company's Operations".

DIVIDENDS

The predecessor Blue Chip Stamp Company, pursuant to a policy of its organizers and directors, paid no dividends on its stock at any time. Blue Chip Stamps was organized with the intention of paying dividends subject to the restrictions referred to under "Description of Common Stock." Under one such restriction, while the Company's debentures are outstanding, the Company may not declare cash dividends during any fiscal year in excess of 25% of net income for the preceding fiscal year; thus cash dividends which may be declared during the current fiscal year ending February 28, 1970 may not exceed $.10 per share. Quarterly cash dividends of $.03 per share were paid to stockholders of record as of July 15 and October 15, 1969. The Board of Directors will determine the advisability of future dividends in the light of such restrictions, earnings, the financial condition of the Company and other relevant factors.

PRICE RANGE OF COMMON STOCK

Since the sale of 1,626,060 shares of Common Stock to retailer users of the Company's trading stamp service in late 1968 (see "Business — Consent Decree and Plan of Reorganization"), a limited market in the Common Stock has developed in the over-the-counter market. Asked prices were not quoted regularly until the summer of 1969. Bid prices prior to that time should not necessarily be deemed to demonstrate the existence of an established trading market. The following table summarizes the range of high bid prices by calendar quarter based on quotations as reported by the National Quotation Bureau, Inc. from December 2, 1968 to November 6, 1969. Such prices do not represent actual transactions but represent quotations between dealers and do not include retail markups, markdowns or commissions.

Year	High	Low
1968		
Fourth Quarter (from December 2)	4	2
1969		
First Quarter	7⅜	4
Second Quarter	11	7
Third Quarter	17¼	11
Fourth Quarter (through November 6)	25	18

BUSINESS

Method of Operation

The Company's trading stamp service is used by retailers primarily as a method of promotion enabling them to increase and maintain their volume of sales. By offering Blue Chip stamps they seek to attract new customers and to encourage steady patronage.

An important feature of the Company's service is the general availability of its stamps to all retailers. This wide distribution contrasts with the practice followed by most trading stamp concerns of franchising only one retailer in the same type of business within a given marketing area. The large franchise stamp companies generally command higher prices for their stamp service since the franchised retailer is able to differentiate its establishment from those of its competitors. On the other hand, by using the Company's generally lower-priced service, numerous retailers are able to offer stamps which have recognized redemption value and in addition are attractive to their customers because they can be obtained from numerous business establishments.

The Company offers its trading stamp service to retailers without written agreements between the parties. Retailers may commence or discontinue the service at any time without notice. The Company is paid for the use of its service in an amount measured by the number of stamps issued.

The Company furnishes retailers with promotional material, stamp saver books and catalogs. In general, retailers offer stamps to their customers at the rate of one stamp for each 10 cents of sales, although some offer multiple stamps (more than one stamp for each 10 cents of sales). Under California law trading stamps cannot be given in connection with the sale of alcoholic beverages or fluid milk.

The Company has a sales force of approximately 80 field representatives who solicit new stamp service business and serve existing users.

While there are no published industry figures, the Company believes its trading stamp volume represents a substantial majority of the trading stamp volume in the area it serves.

Retailer Users

At August 30, 1969 approximately 21,000 retailers were distributing Blue Chip stamps in over 23,000 retail outlets in California and Nevada, the area in which the Company now operates. The Company presently plans to commence limited operations in portions of Arizona and Oregon in 1970.

The Company's trading stamp service is used by many different types of businesses. However, the service is used predominantly in those fields of trade which are characterized by similarity in the products and services offered and by a high frequency of consumer purchase, such as retail food stores and service stations. This is indicated by the following table which sets forth the percentage breakdown of total stamps issued by the Company during the fiscal years 1965 through 1969 and the twenty-six weeks ended August 30, 1969 according to the major categories of users:

	Fiscal Year Ended					Twenty-Six Weeks Ended
	Feb. 27, 1965	Feb. 26, 1966	Mar. 4, 1967	Mar. 2, 1968	Mar. 1, 1969	Aug. 30, 1969
Retail food stores	59.6%	57.3%	58.9%	58.5%	54.4%	48.8%
Service stations	27.8	29.2	29.1	30.4	36.7	43.6
Others	12.6	13.5	12.0	11.1	8.9	7.6
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

From the fiscal year ended February 27, 1965 to the fiscal year ended March 1, 1969 the number of stamps issued to retail food stores, service stations, and others increased 36.7%, 97.9% and 5.8%, respectively.

The Company believes that the practice of many retailer users of giving multiple stamps, which has been widespread in portions of its territory since the summer of 1968, has contributed significantly to subsequent increases in stamps issued, particularly to service stations. Since demand by merchants for trading stamp services is affected to a significant degree by consumer attitudes towards trading stamps and by frequently changing market practices and techniques, the Company is unable to predict what effect these factors may have on its future stamp volume.

There were sixteen retailers ("Major Users") which from March 1, 1964 through August 30, 1969 accounted for 1% or more of the stamps issued by the Company in any fiscal year. In the aggregate

they accounted for 39.4% of the stamps issued during this period. Eight of the Major Users (including three which discontinued use of the stamps in early 1967) owned approximately 10% each of the Company's outstanding Common Stock until December 1, 1968. See "Management — Transactions with Directors, Officers and Others". The remaining 60.6% of the Company's stamps were issued to more than 20,000 retailers ("All Others") each of which used less than 1% of the Company's stamp services. Following is a breakdown of these percentages by fiscal period:

	Fiscal Year Ended					Twenty-Six Weeks Ended
	Feb. 27, 1965	Feb. 26, 1966	Mar. 4, 1967	Mar. 2, 1968	Mar. 1, 1969	Aug. 30, 1969
Major Users	44.7%	42.9%	41.7%	37.6%	36.4%	33.0%
All Others	55.3	57.1	58.3	62.4	63.6	67.0
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

From the fiscal year ended February 27, 1965 to the fiscal year ended March 1, 1969 the number of stamps issued to Major Users increased 22.1% and the number of stamps issued to All Others increased 72.2%

Use of Stamps by Selling Stockholders

Of the Major Users referred to above, Safeway Stores, Incorporated ("Safeway"), Von's Grocery Co. ("Von's"), Purity Stores, Inc. ("Purity") and Thrifty Drug Stores Co., Inc. ("Thrifty Drug") are Selling Stockholders. Alexander's Markets ("Alexander's"), which has accounted for less than 1% of stamps issued, is also a Selling Stockholder. Following are the percentages of the Company's stamps issued to each of the Selling Stockholders during the five and one-half fiscal years ended August 30, 1969:

Selling Stockholders	Fiscal Year Ended					Twenty-Six Weeks Ended
	Feb. 27, 1965	Feb. 26, 1966	Mar. 4, 1967	Mar. 2, 1968	Mar. 1, 1969	Aug. 30, 1969
Safeway	12.9%	12.8%	13.7%	13.4%	11.4%	10.0%
Von's	4.8*	4.5*	4.8*	3.8*	3.3	3.1
Purity	2.6	2.4	1.7	1.5	1.3	1.1
Thrifty Drug	2.3	2.5	2.3	0.1	0.0	0.0
Alexander's	0.5	0.4	0.4	0.5	0.4	0.4

* Includes stamps issued to Shopping Bag stores, which stores were sold by Von's on June 19, 1967.

Thrifty Drug discontinued using trading stamps in July 1967 and Alexander's discontinued such usage in October 1969.

Safeway has been and is the largest user of the Company's trading stamp service. It operates approximately 545 retail outlets in California and Western Nevada of which approximately 350 presently use Blue Chip stamps. Safeway has previously discontinued use of the Company's stamps in 147 outlets, 127 of these since August 1968. Safeway has informed the Company that it presently plans during the first six months of 1970 to discontinue the use of the Company's stamps in an additional

200 of such outlets and that its use of stamps thereafter in its remaining outlets will depend on its evaluation of market conditions and other factors then existing. If Safeway carries out its planned discontinuance of the use of the Company's stamps in approximately 200 of its retail outlets, there would be a material adverse effect on the Company's revenues and earnings.

Von's and Purity have both informed the Company that although they have no present intention of discontinuing the use of the Company's trading stamp service, they do not intend to limit their future course of action which will depend upon competitive and business conditions and other factors they may deem relevant. Accordingly, either of them could discontinue or reduce its use of the Company's stamps at any time.

Redemption of Trading Stamps

The Company's stamps are redeemable for merchandise or cash. In recent years cash redemptions have represented less than one per cent of the total redemptions made by the Company.

The Company operates 83 redemption stores in California and Nevada. In all of these stores the Company maintains inventories of merchandise from which redemptions can be made. A stamp saver who is not located within twenty-five miles of one of the stores can redeem stamps by mailing them directly to the Company for redemption in either merchandise or cash. The Company estimates that the average redemption order involves approximately five filled books of 1,200 stamps each.

The Company currently offers in its catalog a choice of approximately 1,700 merchandise items, a number of which have color variations. These items include sheets, towels, housewares, electrical appliances, luggage, lamps, photographic equipment, sporting goods, jewelry, furniture and various other types of merchandise, most of which are nationally advertised brands. The items are purchased from over 500 suppliers, for some of which the Company is the largest customer. The catalog, of which approximately 9,000,000 copies were distributed in the fiscal year ended March 1, 1969, includes color photographs and descriptions of items.

The Company makes every effort to encourage and facilitate redemptions because it believes that a high rate of redemption is important to the continued participation of retail merchants and their customers in its trading stamp service. Stamps are redeemable regardless of the length of time which may elapse until they are presented for redemption. Based on statistical studies that have been continually updated for a number of years, the Company estimates that 97.5% of all stamps issued will ultimately be presented for redemption and makes appropriate provisions in its financial statements on that basis (see Note 3 to the financial statements). Although the Company believes that the 97.5% redemption rate is a reasonable estimate, it can give no assurance that this rate will not change in the future, nor can the Company estimate the effect of any such change on its future net income.

Incentive Programs

The Company creates and furnishes incentive programs for industrial and commercial companies and other organizations. The programs, which are designed to suit the particular needs of individual customers, may involve the award of Blue Chip stamps or merchandise to employees or others for performance in meeting sales or production goals or for attendance, safety or various other objectives. The Company presently has approximately 600 customers using its incentive programs. For the fiscal years ended in 1966, 1967, 1968 and 1969 the revenue from this activity approximated $680,000, $960,000, $700,000 and $900,000, respectively.

Advertising

The promotional value of a trading stamp service, the Company believes, is greatly influenced by the degree of consumer acceptance of the stamp's brand name. It utilizes radio, television, magazine and billboard advertisements directed towards the consumer.

Investments

At August 30, 1969 the Company's portfolio of marketable securities aggregated $102,699,000 at cost ($86,205,000 at market value). See Note 4 to the financial statements. The Company's present investment policy is to increase the proportion of the portfolio invested in equity securities with an emphasis on relatively high after-tax yield consistent with reasonable safety. In its continuing review of its investment portfolio the Company has the assistance of outside investment counsel.

Diversification

The Company has been investigating various opportunities for the diversification of its business through the acquisition of other businesses for cash or through the issuance of securities. Although no acquisitions have resulted to date, the Company is continuing to seek and review diversification opportunities.

Consent Decree and Plan of Reorganization

In December 1963 the United States Department of Justice filed an action under the Sherman Act against Blue Chip Stamp Company and nine of its twelve stockholders (*United States of America v. Blue Chip Stamp Company, Alexander's Markets, Lucky Stores, Inc., Market Basket, Purity Stores, Inc., Ralphs Grocery Company, Safeway Stores, Incorporated, Thriftimart, Inc., Thrifty Drug Stores Co., Inc. and Von's Grocery Co.*) in the United States District Court, Central District of California. On June 5, 1967 a Consent Decree was entered in said United States District Court providing for the reorganization of Blue Chip Stamp Company under a plan approved subsequently by the Court ("the Plan of Reorganization").

Pursuant to the Plan of Reorganization, the Company was formed as a wholly-owned subsidiary of Blue Chip Stamp Company and on July 16, 1968 Blue Chip Stamp Company was merged into the Company. In the merger, the Company issued 3,108,000 shares of its Common Stock to stockholders of Blue Chip Stamp Company. In addition, the Company sold 138,000 shares to certain officers and employees and adopted a qualified stock option plan for officers and key employees covering 552,000 shares. See "Management".

As a part of the reorganization, the Company offered an additional 3,108,000 shares of Common Stock and $20,720,000 in principal amount of its 6½% Subordinated Debentures due 1978 for sale in units to retailer users (other than stockholders) of Blue Chip stamps on a pro rata basis determined by the quantity of stamps issued to such users during the period between March 1, 1964 and June 1, 1968. The subscription price was $101 for a unit consisting of a Debenture in the principal amount of $100 and 15 shares of Common Stock. Debentures in an aggregate principal amount of $10,840,400 and 1,626,060 shares were subscribed for and issued as a result of said offering.

The Plan of Reorganization requires that the Company present to the United States District Court a plan for the disposition of 1,481,940 shares which were not subscribed for in the 1968 offering to users. The Court by an Order made on October 3, 1969 deferred the filing of such a plan. The Court's Order provides that if prior to January 31, 1970 there has been accomplished a secondary public offering by major stockholders of the Company of approximately 1,000,000 shares, the Court will

not require prior to January 31, 1971 the filing of any plan for the disposition of the unsubscribed shares. The Court's Order directs the Company not later than January 31, 1970 to report to the Court on the results of any such secondary public offering and on the changes which may have occurred in the ownership of the Company's stock. The Order also directs the Company at the same time to make application to the Court for further consideration of the requirement that the Company dispose of the unsubscribed shares. The Company expects to apply to the Court for relief from such requirement on the grounds that the offering made by this Prospectus will have achieved a wider distribution of the Company's stock as well as a substantial reduction in the aggregate percentage of the Company's stock owned by the retailer defendants in the government action referred to above. There is, however, no assurance that such relief will be granted, and any court-ordered offering of the unsubscribed shares may result in dilution of earnings on a per-share basis.

Effects of Consent Decree on Company's Operations

Under the terms of the Consent Decree the Company is:

(a) Enjoined and restrained from:

(1) Refusing to provide a trading stamp service or imposing any limitation on such service to any person because of: (i) the presence in the same locality of any establishment operated by another person using the Company's stamp service; (ii) the rate of issue employed by such person in offering the Company's or any other person's stamps; or (iii) the use by such person of any other trading stamp service;

(2) Coercing or compelling any person: (i) to limit the rate of issue employed in offering the Company's or any other person's stamps; or (ii) to refrain from using any other trading stamp service;

(3) Having as an officer or employee any person, who, while holding such position, also serves as an officer, director or employee of any person using trading stamp services, or from having as a director until June 5, 1977, any person who, while holding such position, also serves an an officer, director or employee of any person who was a stockholder of the Company in 1956 or 1957.

(b) Ordered and directed, within 30 months after the date of completion of the reorganization described above under "Consent Decree and Plan of Reorganization", to present for the approval of the Court a plan which shall include the following terms:

(1) The Company shall offer for sale one-third of its then existing trading stamp business in the State of California. The business to be offered for sale shall be located within a contiguous geographic area within Southern California;

(2) The purchaser shall have the right, if it so elects, to redeem the Company's trading stamps within such contiguous area for the period of one year following consummation of the sale, and the Company is prohibited for such one-year period from competing in such contiguous area with the purchaser. The Company is required to offer its trading stamp service in such contiguous area following the expiration of the said one-year period.

The 30 month period referred to in (b) above will commence at such date as the Court determines as the date of completion of the reorganization but not earlier than its order on the application which the Company is required to present before January 31, 1970 with respect to the secondary public offering of stock by major stockholders referred to under "Consent Decree and Plan of Reorganization".

Although the Company cannot predict with any degree of certainty what the ultimate effect would be of a sale of one-third of its trading stamp business in California (where operations presently account for approximately 99% of the Company's total stamp service income) and the prohibition against competing for a period of one year with the purchaser, such sale and prohibition would have a materially adverse effect on the Company's revenues and earnings from its trading stamp business.

Competition

The business of the Company is competitive. It experiences competition from companies offering other types of promotional and merchandising programs and from other trading stamp companies. However, the three major trading stamp companies which compete with the Company and which are among the largest in the United States operate on a franchise basis and do not generally license the use of their stamps by more than one of the competing retailers in a particular geographical area, whereas the Company makes its stamps generally available to all retailers. The Company also has a number of competitors that are substantially larger in the general field of incentive programs.

Some retailers who used the Company's trading stamp services in the past have converted all or a part of their operations to a so-called "discount" basis which conversion typically includes the elimination of trading stamps. The Company is unable to predict the extent to which its business may be affected in the future by competition from other trading stamp companies and from competitors in the general field of incentive programs, by the adoption of other promotional and merchandising techniques, by changes in the methods of retail distribution, by general economic developments, or by changes in consumer attitudes towards trading stamps. See "Business — Retailer Users" and "Business — Use of Stamps by Selling Stockholders".

Legislation

The Company is subject to various statutes and administrative regulations. In the opinion of the Company, these statutes and administrative regulations thus far have had no materially adverse effect upon its business. The trading stamp business has historically been subjected to considerable agitation for restrictive legislation, but such efforts have resulted in only a limited amount of legislation. The Company cannot predict what the effect may be on its business of the enactment in the future of new statutes or regulations relating to trading stamps.

Employees

The Company employs approximately 1,500 people on a regular basis, approximately 1,230 of whom are employed in redemption stores and distribution centers. It also employs additional people at certain times of the year to meet seasonal requirements. Except for approximately 80 employees located at the Richmond and Benicia, California facilities, the Company's employees are not represented by labor unions. The Company is a party to a proceeding under the National Labor Relations Act regarding unfair labor charges and a disputed election for union representation at one of its redemption centers involving approximately 14 employees. Nevertheless, the Company considers its labor relations excellent.

The Company offers its employees a comprehensive program of group life, hospital, medical and long term disability insurance, some of the costs of which are borne by participating employees. The Company has a pension plan in which regular employees (including officers) who have completed two years of service and attained age 25 participate. Retirement benefits are based on an employee's compensation and years of service. The pension plan is funded by Company contributions made to a trustee under the plan. See Note 6 to the financial statements.

PROPERTY

The Company's principal offices are located at 5801 South Eastern Avenue, Los Angeles, California 90022, where the Company occupies approximately 25,000 square feet of space under a lease running to July 31, 1970 (with the Company having options to extend the lease until July 31, 1980).

The Company normally leases its redemption stores for initial terms of five or ten years with renewal options for an additional period of five years.

The Company operates three distribution centers used for the receipt, storage and distribution of redemption merchandise. These distribution centers, located in California, are:

Location	Approximate Storage Capacity in Cubic Feet	Year of Original Construction
Los Angeles	6,081,000	1947
Richmond (near San Francisco)	2,795,000	1961
Benicia (near San Francisco)	1,760,000	1954
Total	10,636,000	

The Richmond distribution center is owned by the Company in fee. The Los Angeles distribution center is leased under a lease running to July 31, 1970 (with the Company having options to extend the lease until July 31, 1980). The Benicia distribution center is leased under a lease running to March 31, 1970 (with the Company having options to extend the lease until September 30, 1971).

The Company intends to extend the lease of its principal offices and its Los Angeles distribution center until July 31, 1975. It has made no decision regarding the Benicia lease.

LEGAL PROCEEDINGS

During the year ended March 1, 1969 and the twenty-six weeks ended August 30, 1969 the Company made payments aggregating $8,486,000 and $853,000, respectively, in settlement of various lawsuits and claims related to alleged violations of federal and state antitrust and other trade regulations (including the Sherman Act, the Clayton Act, and the California Unfair Practices Act) and the organization, operations and reorganization of Blue Chip Stamp Company. These settlements, less applicable income taxes of $4,835,000 and $475,000, respectively, were charged against income as extraordinary items.

The Company is a defendant in three actions pending in the United States District Court for the Northern District of California brought by EZY Cash Stamp Company, Inc. in October 1968, Bel Air Mart ("Mark Five Stamp Company") and seven individuals doing business as partners in Bel Air Markets in March 1969, and Evergreen Stamp Company in July 1969. In the Bel Air Mart action, litigation counsel for the Company are also defending the action on behalf of four stockholders of the Company's predecessor. See "Management — Transactions with Directors, Officers and Others". Each plaintiff alleges violations of the Sherman Act and the Bel Air Mart plaintiffs also allege violations of the Clayton Act. Each complaint asserts injuries in an amount not yet ascertained and seeks treble damages plus attorneys' fees and costs. The Company has filed its answer in each action denying all material assertions of the complaint.

In August 1969 two actions were filed against the Company in the United States District Court at Los Angeles, one by Douglas Oil Company of California and the other by Time Oil Co., Top Oil Co. and Richmond Sav-Mor Oil Co. Each plaintiff alleged violations of the Sherman Act, the Clayton Act and the California Unfair Practices Act and seeks treble damages together with attorneys' fees and costs. Douglas Oil in its complaint claimed damages in the amount of $1,050,000. The plaintiffs in the other action assert injuries in amounts not yet ascertained.

The actions mentioned in the two preceding paragraphs are being defended for the Company by Messrs. McCutchen, Black, Verleger & Shea and in their opinion substantial defenses may be available to the Company in each of said actions. On the basis of information currently available to them, said counsel are also of the opinion that it is unlikely that the aggregate ultimate liability of the Company, if any, with respect to such actions would be material in relation to the Company's stockholders' equity, but no prediction can be made as to their ultimate outcome.

Following the merger of its predecessor into the Company in July 1968, the Company entered its appearance in the Government's antitrust action pending in the United States District Court in Los Angeles and agreed to comply with the Consent Decree and the Court's Orders relative to the Plan of Reorganization. See "Business — Consent Decree and Plan of Reorganization" regarding any disposition of previously unsubscribed shares and "Business — Effect of Consent Decree on Company's Operations" regarding limitations on personnel and method of doing business and a plan for the sale of one-third of the Company's business to be filed within thirty months after completion of the reorganization.

MANAGEMENT

The Company's executive officers and directors are as follows:

Name	Office
Donald A. Koeppel	Chairman of the Board and President
William F. Ramsey	Executive Vice President and Director
Frank A. Rote	Vice President in Charge of Sales
Robert H. Bird	Secretary and Treasurer
William S. Priest	Controller and Assistant Secretary
Dr. Robert R. Dockson	Director (also Vice Chairman of the Board of California Savings & Loan Association)
Charles J. Futterman	Director (also Owner, Charles J. Futterman & Associates, Management Consultants, and Chairman of the Board of Food Employers Council, Inc.)
Z. Wayne Griffin	Director (also Chairman of Community Redevelopment Agency of the City of Los Angeles)
Joseph P. Hughes	Director (also President of Hughes Markets, Inc. and Chairman of the Board of Certified Grocers of California, Ltd.)
Emmett H. Jones	Director (also President of Terminal Oil Company, Industrial Engineering & Equipment Corporation and Westates Investment Co.)

Name	Office
Arthur D. MacDonald	Director (also President of Coca-Cola Bottling Company of Los Angeles)
Charles T. Munger	Director (also General Partner of Wheeler, Munger & Co., Investors, and President, Spring Street Capital Co.)
Ron Stever	Director (also Chairman of the Board of Ron Stever & Company, Consulting Actuaries)
Andrew J. Wolf	Director (also President of A & B Supermarkets, Inc., Santa Rosa, California)

Each of the executive officers has been in the Company's employ for more than five years, except for Mr. Bird, who, prior to his employment by the Company as Controller in 1968, was Treasurer of Orange Julius of America from 1966 and an audit manager with Price Waterhouse & Co. prior thereto.

All directors were first elected on February 10, 1969 except Mr. Koeppel and Mr. Ramsey who were members of the prior board.

Remuneration of Directors and Officers

The following table shows the aggregate remuneration from the Company during the fiscal year ended March 1, 1969 to each director or officer of the Company whose aggregate direct remuneration exceeded $30,000, the estimated annual benefits upon retirement of each such director or officer and the aggregate direct remuneration for such year for all directors and officers as a group.

Name of Individual or Identity of Group	Capacity in Which Remuneration Was Received	Direct Aggregate Remuneration(1)(2)	Estimated Annual Benefit Under Pension Plan(3)
Donald A. Koeppel	President	$ 74,375	$17,095
William F. Ramsey	Vice President, Secretary, Treasurer and Controller	47,000	14,775
All directors and officers as a group		207,768	

(1) Includes discretionary bonuses paid to officers with respect to the fiscal year. Effective March 1, 1969 Mr. Koeppel's and Mr. Ramsey's salaries were increased on an annual basis by $15,000 and $10,000, respectively. Effective July 1, 1969 the Company commenced paying directors who are not officers retainers at an aggregate annual rate of $32,400.

(2) In addition, in the event of Mr. Koeppel's death while employed by the Company, his heirs would receive $25,000 annually for ten years after his death. Similarly in the event of Mr. Ramsey's death while employed by the Company his heirs would receive $17,000 annually for ten years after his death.

(3) Amounts are based upon the assumption that the recipients continue to be employed by the Company at their current salaries until the normal retirement date and that the plan is continued without modification.

The Company has adopted a management incentive plan for the current fiscal year under which approximately 30 participants will share in a fund aggregating $30,960 plus 1.7% of pre-tax operating profit in excess of $6,969,000. Of the officers and directors, only Messrs. Rote and Priest are eligible to participate. Bonuses can be paid to other officers only in the discretion of the Board of Directors.

Qualified Stock Option Plan

The Company has adopted a qualified stock option plan covering 552,000 shares of its Common Stock for officers and key employees of the Company as an additional means to retain and attract competent management personnel. It is intended that all options granted under the plan will be "qualified stock options" as that term is defined in Section 422 of the Internal Revenue Code of 1954. Under the plan options may be issued to such officers and key employees of the Company and its subsidiaries as the Board of Directors may approve from time to time. The purchase price under each option may not be less than 100% of the fair market value of the stock covered thereby on the date the option is granted. Options granted under the plan are not transferable except by will or the laws of descent and distribution. The options must expire not later than five years from the date of grant. The options may be exercised in four substantially equal annual installments commencing one year from the date of grant and accumulating until the expiration of the option.

As of October 31, 1969 there were outstanding options, granted pursuant to the plan, to purchase 332,500 shares of the Company's Common Stock at a purchase price of $6.10 per share. All outstanding options were granted in February 1969 and expire in February 1974. See "Price Range of Common Stock" for recent bid prices of the Common Stock.

On October 31, 1969 options were held by officers and directors of the Company as follows:

	Number of Shares
Donald A. Koeppel	150,000
William F. Ramsey	105,000
All directors and officers as a group	279,000

Transactions With Directors, Officers and Others

Pursuant to the terms of the Consent Decree entered on June 5, 1967, 88,375 shares of Common Stock of the Company were sold to officers and directors of the Company at a price of $.06⅔ per share, including 40,000 shares to Donald A. Koeppel and 33,750 shares to William F. Ramsey. No other directors participated in such purchase. Purchasers of such shares have agreed not to sell, transfer or hypothecate the shares for specified periods of time and to offer to resell them to the Company under certain conditions; such restrictions terminate as to 20% of the shares each year until January 1, 1974, or upon the holder's death, if sooner.

Under the terms of the merger agreement with its predecessor (see "Business — Consent Decree and Plan of Reorganization" and "Legal Proceedings") the Company has indemnified each officer, director and stockholder of either the Company or its predecessor at the time of the merger or at any prior time and has agreed to hold them harmless from claims, and related costs and expenses, arising out of the organization of the predecessor or the Plan of Reorganization, or based upon alleged violations of the antitrust laws. The Company has also similarly agreed to indemnify and hold harmless its present officers and directors. It is not possible to predict the extent to which the Company may be called upon to fulfill these undertakings nor is it possible to predict the potential liability, if any, of the Company in the discharge of its obligations as a result of these undertakings.

During the three and one-half fiscal years ended August 30, 1969, the following corporations, each of which owned approximately 10% of the Company's outstanding stock until December 1, 1968 and all

but one of which were represented on the Company's Board of Directors until February 10, 1969, purchased the Company's trading stamp services as follows:

Name of Corporation	Name (Title) of Corporation's Representative on the Company's Board of Directors Until February 10, 1969†	Aggregate Amount of Stamp Services Purchased
*Alexander's Markets	Robert E. Alexander (President and Director)	$ 1,371,536
*Lucky Stores, Inc.	William H. Dyer, Jr. (President and Director)	1,496,740
*Market Basket	George A. Leonard† (Assistant Secretary and Director)	1,858,237
Purity Stores, Inc.	John R. Niven (Chairman of the Board and Chief Executive Officer)	4,791,466
Ralphs Grocery Company	Richard Ralphs (Chairman of the Board and Chief Executive Officer)	8,964,931
Safeway Stores, Incorporated	Drummond Wilde (Vice President and Secretary)	41,984,638
Thriftimart, Inc.	Robert E. Laverty†	10,595,612
*Thrifty Drug Stores Co., Inc.	Leonard H. Straus (President and Chief Executive Officer)	3,000,227
Von's Grocery Co.	Fred Von der Ahe (Manager of Corporate Affairs)	12,869,125

* Not presently using the Company's trading stamp service.

† Mr. Leonard served as a director of the Company until January 17, 1968. Mr. Laverty was prior to June 13, 1968 Vice President, and thereafter Chairman of the Board and President, of Thriftimart, Inc.

During the three and one-half fiscal years ended August 30, 1969, the following corporations, each of which owns less than 10% of the Company's outstanding stock and each of which has had one of its officers on the Company's Board of Directors commencing February 10, 1969, purchased trading stamp services as follows:

Name of Corporation	Name (Title) of Corporation's Officer on the Company's Board of Directors Commencing February 10, 1969	Aggregate Amount of Stamp Services Purchased
A & B Supermarkets, Inc.	Andrew J. Wolf (President)	$ 264,753
Hughes Markets, Inc.	Joseph P. Hughes (President)	3,639,288

HOLDERS OF COMMON STOCK

As of October 15, 1969, no stockholder owned of record and no stockholder was known by the Company to own beneficially more than 10% of the Company's outstanding Common Stock. As of that date, an aggregate of 660,290 shares, or 13.6% of the Company's outstanding Common Stock, was beneficially owned by directors and officers of the Company. Included in this number are 446,260 shares held by Wheeler, Munger & Co., a limited partnership of which Charles T. Munger is managing general partner. Ron Stever is a limited partner owning less than 5% interest in said partnership. Also included are 1,625 shares held by Redemp Co., a profit sharing trust, in which Andrew J. Wolf has a substantial interest. Messrs. Munger, Stever and Wolf are directors of the Company.

SELLING STOCKHOLDERS

The following table sets forth certain information as of October 31, 1969 with respect to the ownership of Common Stock of the Company by the Selling Stockholders. The table also indicates the shares of Common Stock to be sold by each of the Selling Stockholders, and the number of shares to be owned by each after the sale of the shares offered hereby.

Name	Shares Owned	Shares To Be Sold	Shares To Be Retained
Alexander's Markets	150,540	150,540	
Buffett Partnership Ltd	371,700	371,700	
J. P. Guerin & Co	331,760	100,000	231,760
Purity Stores, Inc	264,000	100,000	164,000
Safeway Stores, Incorporated	312,000	312,000	
Thrifty Drug Stores Co. Inc	312,000	250,000	62,000
*Von's Grocery Co	312,000	312,000	
Wheeler, Munger & Co	446,260	225,000	221,260
	2,500,260	1,821,240	679,020

* The stockholders of Von's have approved a proposed merger with a subsidiary of Household Finance Corporation ("Household"), subject to certain conditions. In the event said merger is consummated before the offering of shares by this Prospectus is completed, the parties to the merger intend that immediately prior to the merger Von's will transfer to Household the 312,000 shares of the Company's stock owned by Von's and that Household will become a selling stockholder hereunder in place of Von's.

Alexander's, Purity, Safeway, Thrifty Drug, and Von's each acquired shares in the merger on July 16, 1968 of Blue Chip Stamp Company into the Company. Prior to the offering made by this Prospectus but during 1969 Alexander's sold 162,460 shares and Purity sold 48,000 shares.

DESCRIPTION OF COMMON STOCK

The Company's Articles of Incorporation, as amended, authorize a total of 7,000,000 shares of one class designated "Common Stock," of the par value of $1.00 per share.

Bank of America National Trust and Savings Association, Los Angeles, California, is the transfer agent and Union Bank, Los Angeles, California is the registrar for the Company's Common Stock.

Except as set forth below the holders of the shares of Common Stock from time to time outstanding have full voting rights, one vote for each share held of record and may apply the principle of cumulative voting at any election of directors. They are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available therefor. Upon liquidation, dissolution or winding up of the Company, the assets legally available for distribution to stockholders shall be distributed ratably among the holders of the Common Stock at the time outstanding. Holders of Common Stock have no preemptive or other subscription or conversion rights, and no liability for further calls upon the shares. The Common Stock is not subject to assessment.

Under the terms of the indenture underlying the 6½% Subordinated Debentures due 1978, the Company may not declare or pay any dividend or make any distribution (except in stock) or purchase, redeem, or otherwise acquire or retire for consideration, any of its stock (a) if, during any fiscal year, such dividends or distributions would exceed 25% of the net income of the Company for the preceding fiscal year, or (b) if the Company is in arrears in sinking fund payments, or (c) if Claims or Causes of Action, as defined, would exceed 50% of the Company's stockholders' equity. The term "Claims or Causes of Action" includes at any time (i) the amount of claims asserted in lawsuits against the Company or any person or corporation who was at any time prior to December 1, 1968 an officer, director or stockholder based upon the organization or operations of Blue Chip Stamp Company, or the acts of its officers, directors or stockholders in connection therewith, including those based on alleged violations of antitrust laws, or arising out of the Plan of Reorganization and (ii) claims asserted by officers, directors or stockholders of the Company based upon indemnifications of the Company holding harmless such officers, directors or stockholders from liability arising out of the claims described in (i) above.

Under terms of the Consent Decree and the Plan of Reorganization, Alexander's Markets, Lucky Stores, Inc., Market Basket, Purity Stores, Inc., Ralphs Grocery Company, Safeway Stores, Incorporated, Thriftimart, Inc., Thirfty Drug Stores Co., Inc. and Von's Grocery Co. are each prohibited until June 5, 1977 from voting for the election of directors of the Company. However, shares of the Company's Common Stock held by any of the foregoing may be voted independently by a trustee or proxy acceptable to the United States Department of Justice or the Court. The voting restriction does not apply to purchasers of such shares.

The Plan of Reorganization further requires that if at any time prior to June 5, 1977, as a result of purchases by the Company of its shares, the aggregate of shares beneficially owned by the nine companies referred to in the preceding paragraph exceeds 43% of the sum of (a) the Company's outstanding shares and (b) the Company's shares reserved for issuance pursuant to a qualified stock option plan, the Company must present to the Court, within 60 days, a plan for disposing of a number of shares sufficient to reduce the percentage of shares beneficially owned by such nine companies below such 43%.

To enable the stockholders who were stockholders of the Blue Chip Stamp Company to sell any or all of their shares of the Common Stock of the Company in compliance with the Securities Act of 1933, the Company is required by the Plan of Reorganization to register under that Act the shares of any of such stockholders at such time or times as may be requested by any of them but not more than once in any calendar year. Following the completion of the offering made by this Prospectus, the Company will not be required to bear the expense of any such registrations.

As of October 15, 1969 Lucky Stores, Inc., Market Basket and Ralphs Grocery Company did not of record own any of the Company's stock.

UNDERWRITING

The Underwriters named below, acting through their Representative, Merrill Lynch, Pierce, Fenner & Smith Incorporated, have agreed to purchase, severally, subject to the terms and conditions of the Purchase Agreement, 1,821,240 shares of Common Stock from the Selling Stockholders. Each Underwriter will purchase the number of shares of Common Stock set forth opposite his name below, although under certain circumstances the commitments of non-defaulting Underwriters may be increased. Subject to the terms of the Purchase Agreement, the Underwriters are committed to purchase all of the shares if any are purchased.

Name	Address	Aggregate Number of Shares
Merrill Lynch, Pierce, Fenner & Smith Incorporated	70 Pine Street New York, N. Y. 10005	
Total		shs.

The Representative of the Underwriters has advised that sales of the Common Stock may be made to certain dealers at concessions of not in excess of ¢ per share. The Underwriters may allow, and such dealers may reallow, discounts of not in excess of ¢ per share on sales to certain other dealers.

The Company and the Selling Stockholders have agreed in the Purchase Agreement to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

The Selling Stockholders, certain officers and directors of the Company and members of their families and certain other stockholders, each of whom holds approximately 40,000 or more shares, have agreed that during a period of 90 days from the effective date of the Registration Statement they will not, without the prior written consent of the Representative of the Underwriters, directly or indirectly offer to sell, grant any option for the sale of, or otherwise dispose of any shares of Common Stock of the Company other than the shares covered by this Prospectus.

LEGAL OPINIONS

The legality of the Common Stock offered hereby will be passed upon for the Company by Messrs. Burke, Williams & Sorensen, 458 South Spring Street, Los Angeles, California, for the Selling Stockholders by Messrs. O'Melveny & Myers, 9601 Wilshire Blvd., Beverly Hills, California, and for the Underwriters by Messrs. Brown, Wood, Fuller, Caldwell & Ivey, 70 Pine Street, New York, New York. Messrs. Brown, Wood, Fuller, Caldwell & Ivey may rely upon the opinion of Messrs. Burke, Williams & Sorensen as to certain matters of California law.

EXPERTS

The financial statements and schedules included in this Prospectus and elsewhere in the Registration Statement except as they relate to the twenty-six week period ended August 31, 1968 have been included by the Company in reliance upon the opinion of Price Waterhouse & Co., independent accountants, and in reliance upon the authority of such firm as experts in auditing and accounting.

BLUE CHIP STAMPS

STATEMENT OF STOCKHOLDERS' EQUITY

(Notes 1, 2, 8 and 9)

	Common Stock		Paid-in	Retained
	Shares	Amount	Capital	Earnings
Balances at February 26, 1966	3,108,000	$ 207,000		$15,151,000
Net income for the fiscal year ended March 4, 1967				4,284,000
Balances at March 4, 1967	3,108,000	207,000		19,435,000
Net income for the fiscal year ended March 2, 1968				3,418,000
Balances at March 2, 1968	3,108,000	207,000		22,853,000
Sale of restricted stock to employees	138,000	9,000		
Sale of stock to users	1,626,060	109,000	$2,878,000	
Purchase of restricted stock from employees	(450)	—		
Net income for the fiscal year ended March 1, 1969				1,993,000
Balances at March 1, 1969	4,871,610	325,000	2,878,000	24,846,000
Purchase of restricted stock from employees	(450)	—		
Cash dividend				(146,000)
Transfer to common stock pursuant to an amendment to the Articles of Incorporation establishing par value of $1.00 per share		4,546,000	(2,878,000)	(1,668,000)
Net income for the twenty-six weeks ended August 30, 1969				3,625,000
Balances at August 30, 1969	4,871,160	$4,871,000	$ —	$26,657,000

BLUE CHIP STAMPS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — Reorganization:

Pursuant to a consent final judgment entered in the United States District Court, Central District of California, on June 5, 1967, Blue Chip Stamp Company was merged into the Company on July 16, 1968. The accompanying financial statements give retroactive effect to this merger. In order to comply with the plan of reorganization, the Company during the fiscal year ended March 1, 1969 accomplished the following:

(1) Sold 138,000 shares of restricted Common Stock to certain employees. Purchasers of such shares have agreed not to sell, transfer or hypothecate the shares for specified periods of time and to offer to resell them to the Company under certain conditions; such restrictions terminate as to 20% of the shares each year until January 1, 1974, or upon the holder's death, if sooner.

(2) Adopted a qualified stock option plan covering 552,000 shares of Common Stock. Options for 332,500 shares were granted in February 1969 at $6.10 per share (fair market value at date of grant) and were outstanding at August 30, 1969. The exercise price for all options outstanding at August 30, 1969 aggregated $2,028,000. The options are exercisable in four equal annual installments beginning one year after date of grant and expire five years after such date. When the options are exercised, the excess of proceeds over par value will be credited to paid-in capital.

(3) Sold 1,626,060 shares of Common Stock and $10,840,400 principal amount of 6½% Subordinated Debentures due 1978 to retailer users of the Company's stamp services who were not then stockholders. The sale was made in units, each consisting of 15 shares of Common Stock and a Debenture in the principal amount of $100, for a cash consideration of $101 per unit. Based upon relative fair market values, it was later determined that of the $10,949,000 aggregate cash received $7,962,000 related to Debentures and $2,987,000 to Common Stock. The $2,878,000 excess of proceeds received for Common Stock over the par value thereof was credited to paid-in capital. The Debentures are subordinated to Claims or Causes of Action (as defined in "Description of Common Stock") and to borrowings from banks, insurance companies and other lending institutions. At least 20% of the Debentures must be redeemed annually beginning December 1, 1974, unless immediately thereafter Claims or Causes of Action would exceed 50% of stockholders' equity.

NOTE 2 — Recapitalization:

On September 25, 1969, the stockholders approved an amendment of the Articles of Incorporation to (a) change the authorized capital of the Company from 1,400,000 shares of Common Stock of the par value of $0.33⅓ per share to 7,000,000 shares of Common Stock of the par value of $1.00 per share and (b) split each issued and outstanding share of Common Stock of the par value of $0.33⅓ into five shares of Common Stock of the par value of $1.00 per share. The accompanying financial statements give retroactive effect to the stock split, which became effective October 7, 1969, and to the resulting transfer to the Common Stock account of $2,878,000 from paid-in capital and $1,668,000 from retained earnings.

NOTE 3 — Accounting practices:

The Company recognizes stamp service income upon issuance of its trading stamps and provides a liability account for unredeemed trading stamps consisting of the cost of merchandise and related redemption expenses. For a number of years the Company has made statistical evaluations of its redemptions. Based upon analysis of such evaluations the Company presently estimates that 97.5% of all stamps issued will ultimately be redeemed. The liability for unredeemed trading stamps of $85,008,000 at August 30, 1969 included $73,548,000 for the cost of merchandise and $11,460,000 for redemption expenses.

The Company deducts certain redemption expenses for income tax purposes when stamps are redeemed. The increase (decrease) in the provision for income taxes attributable to the difference between the provision for redemption expenses when stamps are issued and the redemption expenses incurred when stamps are redeemed amounted to ($130,000) and ($152,000) in the fiscal years ended June 30, 1961 and 1962, respectively; $34,000 in the eight months ended March 2, 1963; ($192,000), ($77,000), ($52,000), $57,000, ($292,000) and ($421,000) in the fiscal years ended in 1964 through 1969, respectively; and ($273,000) unaudited, and ($105,000) in the 26 week periods

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 — Accounting practices (Continued):

ended August 31, 1968 and August 30, 1969, respectively. At August 30, 1969, the accumulated prepaid income taxes attributable to the difference described above amounted to $2,055,000.

The following amounts have been charged (credited) to income for California franchise tax: $188,000 and $342,000 in the fiscal years ended June 30, 1961 and 1962, respectively; $352,000 in the eight months ended March 2, 1963; $358,000, $179,000, $186,000, $392,000, $380,000 and $326,000 in the fiscal years ended in 1964 through 1969, respectively; and ($65,000), unaudited, and $534,000 in the 26 week periods ended August 31, 1968 and August 30, 1969, respectively. Amounts based on income periods subsequent to March 2, 1968 have been allocated between the provisions for income taxes and the extraordinary items.

Provisions for income taxes have been reduced by investment tax credits, which have not been material in amount.

Expenditures for renewals and betterments of property, fixtures and equipment are capitalized; maintenance and repair costs are charged to income as incurred. When assets are retired or otherwise disposed of, the accounts are relieved of applicable cost and accumulated depreciation and amortization and any gain or loss on disposal is credited or charged to income.

The Company provides for depreciation and amortization of property, fixtures and equipment principally on the straight line basis. The estimated useful lives used in computing depreciation are as follows:

Buildings	20 to 33 years
Furniture, fixtures and equipment	3 to 10 years
Leasehold improvements	Lives of leases

Included in interest on debentures is amortization of debenture discount amounting to $90,000 for the fiscal year ended March 1, 1969, and $179,000 for the twenty-six weeks ended August 30, 1969. Debenture discount is being amortized over the term of the debentures by use of the debentures outstanding method.

NOTE 4 — Marketable securities:

Marketable securities are stated at cost (less amortization of bond premium). The cost of securities sold is determined by the first-in, first-out method. The composition of marketable securities at August 30, 1969 is set forth below:

	Cost	Market Value
Time deposits	$ 2,750,000	$ 2,750,000
Commercial paper	25,932,000	26,104,000
State and municipal obligations	41,544,000	29,921,000
Preferred and common stocks	32,473,000	27,430,000
	$102,699,000	$86,205,000

NOTE 5 — Inventories:

Beginning and ending inventories, principally merchandise, for the three fiscal years ended March 1, 1969 and the 26 week periods ended in August 1968 and 1969 are as follows:

February 26, 1966	$10,889,000
March 4, 1967	14,269,000
March 2, 1968	13,275,000
March 1, 1969	12,742,000
August 31, 1968 (unaudited)	18,019,000
August 30, 1969	22,403,000

Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 — Pension plan:

In 1965 the Company adopted a noncontributory pension plan covering all eligible employees. Pension costs charged to income include amortization of prior service costs over a thirty year period and are funded annually. Such costs amounted to $189,000, $201,000, $212,000 and $197,000 in the fiscal years ended in 1966 through 1969, respectively, and to $106,000, unaudited, and $200,000 in the 26 weeks ended August 31, 1968 and August 30, 1969, respectively.

On September 25, 1969 the Board of Directors authorized a revision of the plan to provide for increased benefits. Provision for such revision resulted in an increase in pension costs charged to income for the 26 weeks ended August 30, 1969 of approximately $100,000.

At August 30, 1969, the liability for unfunded prior service costs amounted to approximately $431,000.

NOTE 7 — Long term lease commitments:

As of August 30, 1969 the Company had minimum annual rental commitments, exclusive of taxes, insurance and other expenses payable directly by the Company, as follows:

Under leases expiring through August 31, 1974	$ 691,000
Under leases expiring from August 31, 1974 through September 1, 1979	765,000
Under leases expiring subsequent to September 1, 1979	30,000
	$1,486,000

NOTE 8 — Legal proceedings:

During the fiscal year ended March 1, 1969 and the 26 weeks ended August 30, 1969, the Company made payments aggregating $8,486,000 (including $7,928,000, unaudited, prior to August 31, 1968) and $853,000, respectively, in complete settlement of certain lawsuits filed and other claims. These settlements, less applicable income taxes of $4,835,000 (including $4,500,000, unaudited, prior to August 31, 1968) and $475,000, respectively, were charged against income as extraordinary items.

See "Business — Effects of Consent Decree on Company's Operations" and "Legal Proceedings".

NOTE 9 — Dividend restrictions:

See "Description of Common Stock" for restrictions on payment of cash dividends.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 — Supplementary profit and loss information:

	Charged Directly to Income		
	Cost of Redemptions	Selling, General and Administrative Expenses	Total
		(In Thousands)	
Fiscal year ended March 4, 1967:			
Maintenance and repairs	$ 274	$35	$ 309
Depreciation and amortization	339	32	371
Taxes, other than income taxes —			
Payroll	407	71	478
Real estate and personal property	239	24	263
Other	55	5	60
Rents	1,335	22	1,357
Fiscal year ended March 2, 1968:			
Maintenance and repairs	286	32	318
Depreciation and amortization	437	36	473
Taxes, other than income taxes —			
Payroll	377	71	448
Real estate and personal property	322	20	342
Other	47	3	50
Rents	1,476	24	1,500
Fiscal year ended March 1, 1969:			
Maintenance and repairs	316	48	364
Depreciation and amortization	536	42	578
Taxes, other than income taxes —			
Payroll	418	85	503
Real estate and personal property	319	21	340
Other	64		64
Rents	1,472	19	1,491
Twenty-six weeks ended August 30, 1969:			
Maintenance and repairs	245	28	273
Depreciation and amortization	317	22	339
Taxes, other than income taxes —			
Payroll	250	53	303
Real estate and personal property	143	8	151
Other	11	3	14
Rents	753	10	763

There were no charges for royalties or management and service contract fees.

1,821,240 Shares

BLUE CHIP STAMPS

Common Stock

(Par Value $1.00 Per Share)

PROSPECTUS

Merrill Lynch, Pierce, Fenner & Smith
Incorporated

....., 1969

MANOR DRUG STORES, etc., Plaintiff,

v.

BLUE CHIP STAMPS, a corporation, et al., Defendants.
Civ. No. 70-2539.

United States District Court
For The Central District of California
[Filed May 25, 1971]

OPINION AND ORDER GRANTING DEFENDANTS' MOTION TO DISMISS

KELLEHER, District Judge.

Plaintiff brought this action for actual and exemplary damages as a result of defendants' alleged misleading representations in connection with the offer of certain securities of a corporation reorganized pursuant to a consent decree and final judgment entered by this Court in United States v. Blue Chip Stamp Co. (C.D.Calif., June 5, 1967) Civil No. 63-1552-F, an action arising under the antitrust laws against Blue Chip Stamp Co. (hereafter old Blue Chip) and nine of its shareholder corporations, named defendants herein along with certain directors of old Blue Chip and Blue Chip Stamps, a corporation, (hereafter new Blue Chip).

The consent decree provided in section V:

> Blue Chip is ordered and directed to present to the Court . . . a plan for the reorganization of Blue Chip Stamp Company . . . Upon approval of the plan by the Court Blue Chip shall make bona fide and diligent efforts to reorganize the company pursuant to the said plan;

and in section VII further provided:

> In the event that Section V becomes inapplicable, Blue Chip may also enter into a reorganization pur-

suant to a plan for the reorganization of Blue Chip Stamp Company acceptable to the Court.

The reorganization plan adopted by the Court provided, inter alia, for the formation of new Blue Chip and ordered that an:

> . . . offering of approximately 621,600 shares of its Common Stock will then be made by New Company to users of Blue Chip Stamps (who issue stamps to their retail customers as a reward for patronage) other than users who are also shareholders of Blue Chip (such users to whom such offering is made are hereinafter referred to as "Users") on a pro rata basis determined by the quantity of stamp pads issued to Users during the period subsequent to March 1, 1964, and prior to a date to be determined which will be not more than 90 days prior to the effective date of the registration statement hereinafter referred to.

The reorganization plan then went on to require registration of the offering under the Securities Act of 1933 and further prescribed that in the event portions of the offering went unsubscribed at the termination of the offering, the unsubscribed shares were to be disposed of by appropriate action of the directors of new Blue Chip Thereafter, according to the amended complaint, an offering of new Blue Chip "units," consisting of a $100 principal amount debenture and three shares of new Blue Chip Common at a total cash consideration of $101.00, were tendered to the users by means of a prospectus dated August 29, 1968; the offering required the users to exercise their rights on or before November 29, 1968. Plaintiff alleges that the Court intended the offering to be a bargain for the users in compensation for the damages they allegedly suffered as a result of old Blue Chip's antitrust violations. However, the offering shareholders purportedly had no intention of complying in good faith with the

terms of the consent decree and permitting the users to exercise their rights under the offer and accordingly conspired to dissuade the users from purchasing the units by including misleading statements in the prospectus; specifically, the amended complaint alleges that the prospectus stated new Blue Chip's income and net earnings would be adversely affected by payment of certain claims against the company and by a substantial decrease in the use of the firm's trading stamp service. As a result of these alleged misrepresentations, plaintiff asserts that it and the other users it claims to represent were induced not to purchase the tendered units and, thereby, suffered damages which it seeks to recover by this action.

Plaintiff contends that the offering shareholders' and directors' alleged misrepresentations violate section 12 of the Securities Act of 1933 [15 U.S.C. § 77*l*] and section 10(b) of the Securities & Exchange Act of 1934 [15 U.S.C. § 78j(b)] and Securities & Exchange Commission Rule 10b-5, promulgated thereunder. A fourth cause of action asserted under pendent federal jurisdiction alleges that plaintiff is a third party beneficiary under the consent decree and that the offering shareholders' and directors' actions breached their duty to plaintiff who may recover therefor. Defendants have moved to dismiss the amended complaint as failing to state a cognizable federal claim; for purposes of these motions, of course, the Court will take the allegations of the amended complaint as true.

PLAINTIFF'S CLAIM TO BENEFICIARY STATUS

[1] Plaintiff claims that the consent decree of June 5, 1967, sought to redress old Blue Chip's alleged antitrust violations by affording non-shareholders of old Blue Chip's trading stamp service, such as plaintiff, the opportunity to become shareholders in a newly organized Blue Chip company at what plaintiff describes as a "bargain basement price." Since the Court intended to benefit

plaintiff and other non-shareholder users, plaintiff infers that the offering shareholders owed plaintiff a duty which was breached by the alleged misrepresentations for which plaintiff may recover in Federal Court. Plaintiff's argument is as unmeritorious as it is imaginative.

[2, 3] It appears well established that a non-party to an antitrust decree cannot attempt to enforce the decree against the defendant, even though the decree was intended to directly or indirectly benefit the non-party. Accordingly, a non-party does not have standing to punish a defendant for contempt of a decree entered in an antitrust action by the United States which retains the opportunity to enforce or modify the terms of the decree. United States v. American Soc. of Composers, Auth. & Pub., 341 F.2d 1003, 1008 (2d Cir. 1965), cert. denied, 382 U.S. 877 (1965). The fact that the decree was intended to benefit certain non-parties does not confer on them an independent cause of action for violations of the decree. Control Data Corp. v. International Bus. Mach. Corp., 306 F.Supp. 839 (D.Minn. 1969), aff'd 430 F.2d 1277, 1278 (8th Cir. 1970). In *Control Data,* plaintiffs were barred from asserting defendant's alleged violations of two prior consent decrees even though plaintiffs did not per se seek to enforce the provisions of the earlier decrees and even though the decrees clearly intended to benefit defendants' competitors, including plaintiffs. The District Court reasoned that to permit private third parties to assert consent decree violations against antitrust defendants would considerably diminish their incentive to enter into such decrees as well as hinder the Government's ability to obtain consent decrees in appropriate cases. Control Data Corp. v. International Bus. Mach., *supra*, at 846.

Plaintiff's attempt to distinguish the *Control Data* case by the fact that not all plaintiffs in *Control Data* were in existence at the time of the decrees therein is untenable

since the very purpose of the decree was to stimulate competition, including the formation of new firms, in the relevant industry. Moreover, even though *Control Data* involved a private antitrust claim by the third party, there appears to be no reason why the rule of that case should not apply with equal, if not greater, force where the plaintiff, as herein, pleads a non-antitrust cause of action which depends on the prior decree. The Court concludes that if plaintiff is to have any action for defendants' alleged misrepresentations, its claim must stand or fall on the provisions of the securities laws which it asserts defendants have violated.

'33 ACT, SECTION 12

[4] Section 12 of the Securities Act of 1933 provides that any person who fraudulently sells a security in interstate commerce or through the use of the mails ". . . shall be liable to the person purchasing such security. . . ." See Greater Iowa Corp. v. McLendon, 378 F.2d 783, 789, 790 (8th Cir. 1967), affirming the dismissal of an issuer's complaint attacking the validity of minority shareholders' voting trust and stating that § 12(2) was not designed to afford protection to persons who are not investors nor those not in privity with them. Slack v. Stiner, 358 F.2d 65 (5th Cir. 1966). Slavin v. Germantown Ins. Co., 174 F.2d 799 (3d Cir. 1949), rev'g on other grounds 74 F.Supp. 876 (E.D.Pa.1947). Since this section of the Act expressly limits recovery to private litigants who qualify as "purchasers," it clearly has no application to the present action where the gravamen of the amended complaint is that due to defendants' alleged fraud plaintiff was induced not to purchase the offered securities.

'34 ACT, SECTION 10 AND RULE 10b-5

[5] Section 10 of the '34 Act makes unlawful the use of ". . . any manipulative or deceptive device or con-

trivance in contravention of such rules and regulations as the [Securities & Exchange] Commission may prescribe. . . ." Thereunder, the Commission has promulgated Rule 10b-5, which provides:

> It shall be unlawful for any person, directly or indirectly, by use of any means or instrumentality of interstate commerce, or of the mails, or of any facility of any national securities exchange.
>
> (1) to employ any device, scheme, or artifice to defraud,
>
> (2) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or
>
> (3) to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person, *in connection with the purchase or sale of any security.* (emphasis added) [17 C.F.R. § 240.10b-5]

Both parties state that the Ninth Circuit Court of Appeals has not had occasion to rule whether an offeree, such as plaintiff, who has not in fact purchased or sold securities as a result of conduct fraudulent within the meaning of the Rule, may recover damages in a private civil action. There has, however, been considerable discussion of the problem elsewhere.

The watershed case appears to be Birnbaum v. Newport Steel Corp., 193 F.2d 461 (2d Cir. 1952), cert. denied, 343 U.S. 456 (1952), holding that Rule 10b-5 does not sanction private recovery by a minority shareholder who complained of an insider's sale of corporate control without affording the minority shareholders an opportunity to sell their shares at the same price. However, to fully effectuate the purpose of the Rule, the *Birnbaum* decision has generally been given a fairly restrictive interpretation by limiting its application to situations where the plaintiff was not a party to a purchase or sale transaction. See the dissent of Frank, J., in Joseph v. Farnsworth Radio & Television Corp., 198 F.2d 883 (2d Cir. 1952). Indeed the exceptions or limitations to an across the board application of the *Birnbaum* doctrine are legion, usually resting upon a liberal construction of what constitutes a purchase or sale for purposes of Rule 10b-5; thus, for example, where defrauded sellers are induced or forced to postpone their sale, an action under Rule 10b-5 will lie, Stockwell v. Reynolds & Co., 252 F.Supp. 215 (S.D.N.Y. 1965), Opper v. Hancock Securities Corp., 250 F.Supp. 668 (S.D.N.Y. 1966), aff'd 367 F.2d 157 (2d Cir. 1966); a minority shareholder was deemed a forced seller for purposes of Rule 10b-5 even though he had neither accepted defendant's tender offer nor surrendered his stock pursuant to a "short form" merger, Vine v. Beneficial Finance Co., Inc., 374 F.2d 627 (2d Cir. 1967), cert. denied, 389 U.S. 970 (1967); nor does it appear a consummated purchase or sale is required to invoke operation of the Rule, Commerce Reporting Co. v. Puretec, Inc., 290 F.Supp. 715, 718 (S.D.N.Y. 1965). Without question, such broad interpretations of the Rule are both sound and necessary in order to vitalize the antifraud purposes of the Rule and the securities laws. S.E.C. v. National Securities, Inc., 393 U.S. 453 (1969).

Nonetheless, the Court considers the Rule's application properly limited to situations where the defrauded party can show actual damages, not merely the loss of a possible gain contingent upon factors which never came into existence. 15 U.S.C. § 78bb(a). Plaintiff's case aptly demonstrates the soundness of so limiting operation of the Rule; the causal nexus between defendants' alleged misrepresentations and plaintiff's failure to purchase the

Blue Chip "units" depends upon a number of highly uncertain factors such as proof that but for defendants' misrepresentations plaintiff would have, indeed, purchased the offered "units;" the Court doubts that plaintiff, if permitted to maintain this action, could satisfactorily carry the burden of such proof; in view of this uncertainty, damages herein appear highly speculative. Kremer v. Selheimer, 215 F.Supp. 549, 552, 553 (E.D.Pa. 1963). This uncertainty is not, it is believed, peculiar to plaintiff's case but applies to any party who, like plaintiff, has not in fact entered into a transaction having the effect of a purchase or sale of securities; since the securities laws do not sanction recovery for losses based on speculation or conjecture, the Court concludes that a party in plaintiff's position is not entitled to an action under these laws.

None of the numerous cases cited by plaintiff persuades the Court that the *Birnbaum* requirement of a purchase or sale has been discarded as an essential element for maintenance of an action under Rule 10b-5. Despite some fairly extensive criticism of the requirement and predictions of its pending "demise," Entel v. Allen, 270 F.Supp. 60 (S.D.N.Y. 1967), Lowenfals, "The Demise of the Birnbaum Doctrine: A New Era for Rule 10b-5," 54 Va.L.Rev. 268 (1968), the Court finds ample authority that the *Birnbaum* requirement retains validity and represents sound policy. Iroquois Industries, Inc. v. Syracuse China Corp., 417 F.2d 963, 967 (2d Cir. 1969), cert. denied, 399 U.S. 909 (1970). Greenstein v. Paul, 400 F.2d 580, 581 (2d Cir. 1968). 3 Loss, Securities Regulation (2d ed. 1961) 1469. 6 Loss, Securities Regulation (Supplement 1969) 3620.

Upon the foregoing, IT IS HEREBY ORDERED that defendants' motions to dismiss are granted and the amended complaint is dismissed with prejudice.

IT IS FURTHER ORDERED that the Clerk of this Court send, by United States mail, copies of this opinion and order to all counsel.

Dated: May 25, 1971

ROBERT J. KELLEHER

Robert J. Kelleher
United States District Court

[Filed June 17, 1971]

UNITED STATES DISTRICT COURT

CENTRAL DISTRICT OF AMERICA

(caption omitted in printing)

NOTICE OF APPEAL

Notice is hereby given that MANOR DRUG STORES AND ALL OTHER USERS OF BLUE CHIP STAMPS WHO WERE ENTITLED BUT FAILED TO PURCHASE STOCK OF BLUE CHIP STAMPS, ON BEHALF OF THEMSELVES AND ALL OTHER PERSONS SIMILARLY SITUATED, Plaintiffs, above named, hereby appeal to the United States Court of Appeals for the Ninth Circuit from the Order Granting Defendants' Motions to Dismiss and Dismissing Plaintiffs' Complaint with Prejudice, entered in this action on the 26th day of May, 1971.

The Defendants and their counsel of record are as follows:

Defendant, MARKET BASKET, by McCutchen, Black, Verleger & Shea and all other defendants are represented by O'Melveny & Myers.

Dated: June 15, 1971.

J. J. BRANDLIN, JAMES E. RYAN
and RAY E. MCALLISTER

By JAMES E. RYAN
Attorneys for Plaintiffs

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MANOR DRUG STORES AND ALL OTHER USERS OF BLUE CHIP STAMPS WHO WERE ENTITLED BUT FAILED TO PURCHASE STOCK OF BLUE CHIP STAMPS, ON BEHALF OF THEMSELVES AND ALL OTHER PERSONS SIMILARLY SITUATED,

Plaintiffs-Appellants,

vs.

BLUE CHIP STAMPS, a corporation, BLUE CHIP STAMP COMPANY, a merged corporation, LUCKY STORES, INC., MARKET BASKET, a corporation, PURITY STORES, INC., RALPHS GROCERY COMPANY, a corporation, SAFEWAY STORES, INC., THRIFTIMART, INC., THRIFTY DRUG STORES CO., INC., VONS GROCERY CO., a corporation, ROBERT E. ALEXANDER, DONALD A. KOEPPEL, LEONARD H. STRAUS, WILLIAM F. RAMSEY, ROBERT E. LAVERTY, RICHARD RALPHS, JOHN R. NIVEN, FRED VON DER AHE,

Defendants-Appellants.

No. 71-2223
OPINION

[Filed October 15, 1973]

Appeal from the United States District Court
for the Central District of California

Before: BROWNING, HUFSTEDLER, and CHOY,
Circuit Judges

BROWNING, Circuit Judge:

The district court dismissed appellants' complaint under section 10(b) of the Securities Exchange Act of 1934,[1] 15 U.S.C. § 78j(b), and Securities and Exchange Commission Rule 10b-5,[2] claiming damages for alleged fraud in connection with an offering of stock of appellee Blue Chip Stamps to appellant and the class it seeks to represent. The court held that because appellant and other members of the class did not purchase the stock they lacked standing to sue under the rule announced in *Birnbaum v. Newport Steel Corp.*, 193 F.2d 461 (2d Cir. 1952).[3] We conclude that it does not appear "beyond doubt" that appellant "can prove no set of facts in support of [its] claim which would entitle [it] to relief." *Conley v. Gibson*, 355 U.S. 41, 45-46 (1957). We therefore reverse.

[1]Section 10(b) of the Act provides:

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce or of the mails, or of any facility of any national securities exchange —

. . . .

(b) To use or employ, *in connection with the purchase or sale of any security* registered on a national securities exchange or any security not so registered, any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the Commission may prescribe as necessary or appropriate in the public interest or for the protection of investors. (Emphasis added.)

[2]The Rule provides:

It shall be unlawful for any person, directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,

(a) To employ any device, scheme, or artifice to defraud,

(b) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or

(c) To engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person *in connection with the purchase or sale of any security*. (Emphasis added.)

[3]This court adopted the *Birnbaum* rule in Mount Clemens Industries, Inc. v. Bell, 464 F.2d 339 (9th Cir. 1972). *See also* Lanning v. Serwold, 474 F.2d 716 (9th Cir. 1973); Walling v. Beverly Enterprises, F.2d (9th Cir. April 9, 1973).

The alleged facts are as follows.[4]

In 1963 the United States filed a complaint charging Blue Chip Stamp Company, Thrifty Drug Stores Co., Inc., and eight grocery chains with conspiracy to restrain trade and monopolization in the trading stamp business in California, in violation of the Sherman Act. This litigation was settled in 1967 by entry of a consent decree. *See United States v. Blue Chip Stamp Co.*, 272 F. Supp. 432 (C.D. Calif. 1967).

The defendants in the antitrust suit, other than Blue Chip Stamp Company, were major California retail merchandisers who used Blue Chip stamps to stimulate patronage in their businesses. They owned 90 per cent of Blue Chip Stamp Company's stock.

Other retailers who used Blue Chip stamps in their business but owned no stock in Blue Chip Stamp Company (a group that includes appellant and others in the class it seeks to represent) appear before the court in the antitrust proceeding as amicus curiae. They contended that Blue Chip Stamp Company was to have been a non-profit venture on behalf of all users of Blue Chip stamps, and that they (the non-stockholding users) in fact owned an equitable interest in Blue Chip Stamp Company and in the $20,000,000 in profits it had accumulated. They asked that this interest be recognized in the decree.

[4]Some minor details are drawn from material submitted by plaintiff-appellant to this court. They are appropriately considered as reflecting the nature of the facts that might have been established under the allegations of the complaint. *See* Herpich v. Wallace, 430 F.2d 792, 809 (5th Cir. 1970); Shell v. Hensley, 430 F.2d 819, 822 n.8 (5th Cir. 1970).

These claims and contentions on behalf of the non-stockholding retail users of Blue Chip stamps "prompted the provisions" of the consent decree requiring the reorganization of Blue Chip Stamp Company. Under the reorganization plan eventually approved, Blue Chip Stamp Company was to be merged into a new company—Blue Chip Stamps. The defendant stockholder-users were to be divested of 55 percent of their interest in the enterprise. This was to be accomplished by issuing to others 55 percent of the common stock of the new company; 621,600 shares of the common stock of the new company were to be offered to the retail users of Blue Chip stamps who were not stockholders of the old company. The shares were to be offered on a pro-rata basis determined by the quantity of stamps issued to each of these non-stockholding users during a designated period. The offering was to be made in units consisting of three shares of common stock and a $100 debenture for a cash payment of $101. Any of the 621,600 shares not purchased by the non-stockholding users were to be sold on the open market.

The offer of debentures and stock to non-stockholding users was intended by the court and government to be, and was, a bargain. Each unit offered to the non-stockholding user for $101 had a reasonable market value of $315, as defendant-appellees knew.

Users who were stockholders in the old company (including the defendant-appellees in this case)[5] did not want the non-stockholding users to exercise their right to purchase stock in the new company. To accomplish their purpose they caused to be prepared and circulated a prospectus "calculated to mislead and dissuade users

[5]Defendant-appellees are Thrifty Drug Stores Co., Inc., seven of the eight grocery chains that were defendants in the antitrust suit, the old Blue Chip Stamp Company, the new Blue Chip Stamp Corporation, and the members of the board of directors of the latter.

not knowledgeable of the true value of said shares from purchasing said shares." The prospectus repeatedly emphasized certain "Items of Special Interest" as having an adverse effect upon the value of the offered stock.[6] "Constant reference to said items was intended to, and did cause plaintiffs to be misled as to the true value of said shares." When defendant-appellees offered "their own" shares to the public a year later,[7] the prospectus then issued made no reference to any of these "Items of Special Interest," although they were as relevant (or irrelevant) on the date of the second prospectus as they had been on the date of the first.

Defendant-appellees, by these and other means, intended to and did mislead plaintiff-appellant and other user-offerees as to value of the stock. Plaintiff-appellant and others in the class it represents, relying upon these representations, "were induced and did, in fact, not accept said offer and purchase said Units," and were thereby damaged in the amount of the difference between the offering price of the units and their fair market value.

We are not satisfied that these allegations establish on their face that appellant is barred from maintaining

[6]One such item was the pendency of claims against the company said to "aggregate approximately $29,000,000." Defendant-appellees allegedly knew the claims "were of insignificant merit"; they were settled for less than $1,000,000.

In addition to reference to the "Items of Special Interest," the complaint alleges other misleading statements, including an estimate that 97½% of the Blue Chip Stamps issued by the new company would be redeemed when historically less than 90% were redeemed. This alleged misrepresentation "resulted in an understatement of earnings on stamp sales for the year prior to the offering of Six Million Dollars ($6,000,000) or about eighty per cent (80%)."

[7]It is unclear from the complaint whether the unsold shares originally offered to non-stockholding users were eventually sold, and at what price. The complaint mentioned sales by defendants of "their own" shares, although plaintiff-appellant's brief indicates that the same shares offered to them "were offered to the general public one year later." The facts may be resolved in further proceedings.

the action by the judicially created "purchaser-seller" prerequisite to standing to sue for damages under section 10(b) and Rule 10b-5.

The complaint alleges the use of a fraudulent scheme involving untrue statements and omissions in offering securities of Blue Chip Stamps for sale.

The statute and rule were intended to protect the purity of stock transactions from just such manipulative and deceptive practices that deprive potential investors of a reasonable opportunity to make informed and intelligent investment decisions.[8] It is obviously irrelevant to this purpose that the object of the deceptive practices was to prevent purchases rather than to induce them.[9] And Congress and the Commission cannot have intended to prohibit such fraudulent practices if they failed but not if they succeeded. The language of the statute and rule does not require such a bizarre result. The statute and rule are not confined in terms to consummated purchases or sales. They have often been applied where, as here, "plaintiffs alleged that they had sought to enter a securities transaction as purchasers or sellers, but that the transaction was aborted as a result of the fraud of the defendants." *Mount Clemens Industries, Inc. v. Bell,* 464 F.2d 339, 345 (9th Cir. 1972), citing *Opper v. Hancock Securities Corp.,* 367 F.2d 157 (2d Cir.), *affirming* 250 F. Supp. 668 (S.D.N.Y. 1966); *Commerce Reporting Co. v. Puretec, Inc.,* 290 F. Supp. 715 (S.D.N.Y. 1968); *Goodman v. Hentz & Co.,* 265 F. Supp. 440 (N.D. Ill. 1967); and

[8]Affiliated Ute Citizens v. United States, 406 U.S. 128, 151, 153 (1972); Superintendent of Insurance v. Bankers Life & Cas. Co., 404 U.S. 6, 12 (1971); Teherepnin v. Knight, 389 U.S. 332, 336 (1967); Herpich v. Wallace, 430 F.2d 792, 801, 805-06 (5th Cir. 1970); Kahan v. Rosenstiel, 424 F.2d 161, 173 (3d Cir. 1970); SEC v. Texas Gulf Sulphur Co., 401 F.2d 833, 851-52, 858 (2d Cir. 1968).

[9]*See, e.g.,* Travis v. Anthes Imperial Ltd., 473 F.2d 515 (8th Cir. 1973); Crane Co. v. Westinghouse Air Brake Co., 419 F.2d 787 (2d Cir. 1969).

Stockwell v. Reynolds & Co., 252 F. Supp. 215 (S.D.N.Y. 1965). *See also Walling v. Beverly Enterprises,* .... F.2d .... (9th Cir. April 9, 1973).

It can hardly be doubted, therefore, that the Securities and Exchange Commission, or a private person having a sufficient interest,[10] could have obtained prophylactic injunctive relief against the defendants in a timely suit.

Thus the question is not whether the complaint alleges a violation of the statute and rule, but rather whether appellant is barred from suing for damages because it succumbed to the fraud and did not purchase the offered stock.

Like the provisions of the statute and rule relating to coverage,[11] the *Birnbaum* "purchaser-seller" standing requirement is to be construed to accomplish Congress' purpose. *Herpich v. Wallace,* 430 F.2d 792, 806-07 (5th Cir. 1970), and cases there cited. If this were the sole consideration, standing would be allowed to any person whose investment decision was affected by fraud, whether the fraud caused him to buy or prevented him from doing so. In either case the fraud would frustrate Congress' purpose, as we have said; and, in either case, allowing the private remedy would serve to vindicate that purpose.[12]

[10]Private parties may maintain an action to enjoin anticipated or continuing violations of § 10(b) and Rule 10b-5 though they could not sue for damages. *See* Kahan v. Rosenstiel, 424 F.2d 161, 173 (3d Cir. 1970); Britt v. Cyril Bath Co., 417 F.2d 433, 436 (6th Cir. 1969); Mutual Shares Corp. v. Genesco, Inc., 384 F.2d 540, 546 (2d Cir. 1967).

[11]Affiliated Ute Citizens v. United States, 406 U.S. 128, 151 (1972); Superintendent of Insurance v. Bankers Life & Cas. Co., 404 U.S. 6, 12 (1971); SEC v. National Sec. Inc., 393 U.S. 453, 466-67 (1969). See also Kern County Land Co. v. Occidental Petroleum Corp., ... U.S. .... , ... (1973).

[12]*See, e.g.,* Note, *The Purchaser-Seller Requirement of Rule 10b-5 Reevaluated,* 44 U.Colo.L.Rev. 151, 154-55 (1972); Boone & McGowan, *Standing to Sue under SEC Rule 10b-5,* 49 Texas L. Rev. 617, 631, 647 (1971); Ruder, *Current Developments in the Federal Law of Corporate Fiduciary Relations-Standing to Sue under Rule 10b-5,* 26 Bus.Law. 1289, 1296 (1971); Whitaker,

The standing requirement rests in part upon other considerations, however.[13]

Cases allowing private suits for injunctive relief make it clear that the "purchaser-seller" prerequisite to standing to sue for damages rests largely on the assumption that if plaintiff does not allege that he purchased or sold the stock involved in the fraud it is evident at the outset that his claim must fail "both on proof of loss and the casual connection with the alleged violation of the Rule." *Mutual Shares Corp. v. Genesco, Inc.*, 384 F.2d 540, 547 (2d Cir. 1967). *See also Britt v. Cyril Bath Co.*, 417 F.2d 433, 435-36 (6th Cir. 1969); *cf. Rekant v. Desser*, 425 F.2d 872, 881 (5th Cir. 1970); Boone & McGowan, *Standing to Sue under SEC Rule 10b-5*, 49 Texas L. Rev. 617, 646 (1971); Kellogg, *The Inability to Obtain Analytical Precision Where Standing to Sue under Rule 10b-5, Is Involved*, 20 Buffalo L. Rev. 93, 114-16 (1970).

This assumption is usually justified. Ordinarily there will be little proof (other than the non-purchaser's own opinion, after the loss) that the non-purchaser would in

The Birnbaum Doctrine: An Assessment, 23 Ala. L.Rev. 543, 571 (1971); Note, *Inroads on the Necessity for a Consummated Purchase or Sale under Rule 10b-5*, 1969 Duke L.J. 349, 362-63 (1969).

[13]A suggestion that additional considerations may exist that give different meanings to "purchase" and "sale" as these words are used to define coverage in the statute and rule, and as they are employed in connection with the *Birnbaum* "purchaser-seller" doctrine of standing, appears in SEC v. National Sec., Inc., 393 U.S. 453 (1969). The Court stated that in defining "purchase" and "sale" as these terms are used in the statute and rule to determine coverage, the question to be asked is "whether [the] alleged conduct is the type of fraudulent behavior which was meant to be forbidden by the statute and the rule" (466-67). In a footnote at this point (467 n.9) the Court added:

> "The case presents none of the complications which may arise in determining who, if anyone, may bring private actions under § 10(b) and Rule 10b-5. This is a suit brought by the Commission; the terms 'purchase' and 'sale' are relevant only to the question of statutory coverage. Therefore there are no 'standing' problems lurking in the case." (Citations omitted.)

fact have purchased but for the fraud, and, if so, how much, when, or at what price; also, generally, the potential number of non-purchasers will be without definable limit. But this is not invariably true.

As we noted in *Mount Clemens Industries, Inc. v. Bell, supra*, a "common link" among many of the cases allowing non-purchasers or non-sellers to sue for damages under the statute and rule is "the existence of a contractual relationship between the parties." 464 F.2d at 345. Such contracts often furnish objective evidence of the reality of a plaintiff's intention to purchase or sell but for the fraud, and thus of causation. They may also fix the price, quantity, and time of sale, thus making it possible to calculate damages. And the existence of such contracts permits a reasonable circumscription of a defendant's potential liability by identifying from among the limitless number of possible non-purchasers those few that the defendant chose to deal with himself. *See Commerce Reporting Co. v. Puretec, Inc., supra*, 290 F. Supp. at 719.

Under the allegations of this complaint, the consent decree involved here served as the functional equivalent of the contractual relationship referred to in *Mount Clemens*. According to the complaint, the consent decree required defendant-appellees to offer particular securities to a specific, identifiable group of non-stockholding retail users of Blue Chip Stamps, including plaintiff-appellant, and plaintiff-appellant had a right to buy those securities at a fixed price and in a fixed amount.[14] The

[14]As defendant-appellees point out, plaintiff-appellant could not have directly enforced the decree. *See* Dahl, Inc. v. Roy Cooper Co., 448 F.2d 17, 20 (9th Cir. 1971). Indeed, the district court dismissed a claim based upon the theory that plaintiff-appellant's damage arose out of a violation of the consent decree, and that ruling was not appealed.

The rule referred to does not bar the claim before us, however. This claim rests upon the theory that plaintiff-appellant was damaged by a violation of the Securities Exchange Act of 1934 and Rule 10b-5 prohibiting fraud in connection with the purchase

complaint alleges an objective measure of the amount of loss, based on subsequent sales by defendants. As to causation, the complaint alleges that the consent decree offer was intended to be and was a bargain; that units of securities having a market value of $315 were to be offered to plaintiff-appellant for $101 — a difference so great as to provide, prima facie, an objective basis for a factual inference that users properly informed rather than misled would have accepted the offer.[15] It is also alleged that 60 per cent of those non-stockholding users who did purchase the units offered them had information as to value not made available by defendant-appellees in the prospectus.

The facts foreshadowed by plaintiff-appellant's allegations may not be forthcoming, or the suggested inferences may be shown to be untenable. If such deficiencies become apparent in pretrial proceedings, they will justify judgment short of trial. *Walling v. Beverly Enterprises, supra,* .... F.2d at .... We hold only that dismissal on the face of the complaint was premature.

Reversed and remanded for further proceedings.

HUFSTEDLER, Circuit Judge, dissenting:

The majority confers standing to bring private damage actions under section 10(b) and Rule 10b-5 upon persons who neither bought nor sold securities and who never contracted with anyone to do so. I cannot reconcile this result with existing authority in our circuit and elsewhere

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or sale of securities. The fact that the securities transaction that is the subject matter of the claim was mandated by the consent decree does not immunize defendant-appellees from the statutes and rules regulating securities transactions. Plaintiff-appellant relies upon a breach of a duty imposed by these statutory antifraud provisions, not upon a breach of a duty imposed by the consent decree.

[15]An informed decision by plaintiff-appellant to purchase these shares could not have been thwarted by the intervention of an earlier or higher bidder, as in Mount Clemens Industries, Inc. v. Bell, 464 F.2d 339, 346 n. 11 (1972).

or with the legislative scheme of which the section and the rule are a part. The majority's justification for the result is that these nonpurchasing appellants, as members of a class benefited by a consent divestiture decree in an action to which they were not parties, had a special status that was "functionally equivalent" to the status of an investor who had a contract to buy or to sell securities. I perceive no analogy between the two and no sound reason to create a fiction to expand the reach of section 10(b) damage actions.

The result reached by the majority is inconsistent with the holding and reasoning of this court's recent decision in *Mount Clemens Industries, Inc. v. Bell* (9th Cir. 1972) 464 F.2d 339. *Mount Clemens* held that the purchaser-seller rule governs standing to bring section 10(b) damage actions in the courts of this circuit. The court then concluded that the noncontractual status of the *Mount Clemens* nonbuyer was fatal to the maintenance of his section 10(b) claim. Similarly, the noncontractual status of the nonbuyer appellants herein should be held to bar their suit.[1]

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[1]Unless some relevant distinction between the nonpurchasers in this case and the nonpurchasers in *Mount Clemens* can be asserted, appellants herein must, on authority of *Mount Clemens,* be denied standing. To be significant, the distinction must be one which would have made a difference in outcome under the reasoning of *Mount Clemens.*

The majority opinion explicitly suggests only one distinguishing feature between the two cases: "An informed decision by plaintiff-appellant to purchase these shares could not have been thwarted by the intervention of an earlier or higher bidder, as in Mount Clemens ...." This distinction, however, is irrelevant.

The *Mount Clemens* court made it clear that the difficulty that plaintiffs therein would have had in proving that they could have purchased the securities in question was not of governing significance in that case: "While we agree with the District Court that the claim of the appellants is highly speculative, that circumstance alone could not necessarily deprive them of the opportunity to prove a set of facts entitling them to relief." 464 F.2d 346 n.11. The court then went on to indicate the factor that was of governing significance: "The lack of an agreement, however, does distinguish the present case from those decisions which permit

The majority, however, attempts to bring appellants within the class of protected investors by saying that the consent decree is the "functional equivalent of the contractual relationship referred to in *Mount Clemens*." The majority means that appellants' status under the consent decree is analogous to that of purchasers or sellers whose contracts to buy or to sell aborted because of deceptive practices forbidden by section 10(b) and who were given standing to sue in cases that were cited and distinguished in *Mount Clemens*.

The functions of a contract and of the consent decree are, however, not equivalent. A contract to purchase or to sell a security is the equivalent of a purchase or a sale because the statute by definition makes them equivalent.[2] As *Mount Clemens* explained, the unifying link among the cases granting standing to persons who did not buy or sell "is the existence of a contractual relationship between the parties which elevated the plaintiff to the status of statutory purchaser or seller." (464 F.2d at 345.) A consent divestiture decree cannot function similarly because it is not a "contract" within the meaning of the statute and because no statutory provision equates "purchase"

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aborted purchasers and sellers to maintain an action for damages." *Id.*

The distinction through which the majority in this case seeks to avoid the result in *Mount Clemens*, therefore, is irrelevant, for even if the claim of the plaintiffs in *Mount Clemens* had been less speculative than the appellants' claim in this case, the result in *Mount Clemens* would have been the same. Because plaintiffs therein would nonetheless have been neither actual buyers nor contractual "purchasers", they would have been denied standing. Similarly, if the outcome in this case is to be in accord with the reasoning in *Mount Clemens*, appellants must be denied standing because appellants in this case neither actually acquired shares nor entered into contracts for their acquisition.

[2]Securities Exchange Act of 1934, § 3(a), 15 U.S.C. 78c(a):

". . . .

"(13) The terms 'buy' and 'purchase' each include any contract to buy, purchase, or otherwise acquire.

"(14) The terms 'sale' and 'sell' each include any contract to sell or otherwise dispose of."

and "offer pursuant to a consent decree." The essential statutory link between the appellants and "purchasers" is missing.

The gap cannot be filled by saying, as does the majority, that a contract and the consent decree render causation and damages equally provable. Assuming that this similarity exists, it is nonetheless irrelevant. The court in *Mount Clemens* concluded that the speculativeness of a cause of action was not a ground for denying standing. (464 F.2d 346 n.11.) If speculativeness will not impair standing, a want of speculativeness cannot support standing. The ability of a plaintiff to prove causation and damages is relevant to the disposition of the merits, not to a determination of whether or not a certain plaintiff is properly before the court.

Furthermore, the appellants' ability to prove causation and damages cannot be likened to that of parties who have contracted to buy or sell. Their situations are dissimilar because a contract creates legal rights between the parties. Appellants had no duties and no rights created by the consent decree. The decree could not have been enforced against them, and they could not have enforced it, even if the parties to the action resulting in the decree had intended to benefit them specifically. *(E.g., Buckeye Co. v. Hocking Valley Co.* (1925) 269 U.S. 42; *United States v. ASCAP* (2d Cir. 1965) 341 F.2d 1003; *Control Data Corp. v. IBM Corp.* (D. Minn. 1969) 306 F. Supp. 839, *aff'd sub nom. Data Processing Financial & General Corp. v. IBM Corp.* (8th Cir. 1970) 430 F.2d 1277. *See Dahl, Inc. v. Roy Cooper Co.* (9th Cir. 1971) 448 F.2d 17, 20.[3] Because the consent decree creates no rights or

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[3]A persuasive rationale for refusing to accord nonparties standing to enforce a consent decree is that the potential exposure to litigation and to liability that a contrary rule would engender would seriously impair the settlement of litigation. The public

duties in appellants, their commitment and ability to purchase the offered securities are far less definite than in a case in which a contract binds the parties. This want of definiteness renders appellants far less able to prove causation and damages than those who have contracted to buy securities and negates the "functional equivalence" that is the basis for the majority's grant of standing.

The foregoing analysis suggests that the majority does not succeed in bringing appellants within the ambit of the standing rule established in *Mount Clemens;* indeed, it does not really attempt to do so. The "functional equivalent" language masks the majority opinion's real purport, which is the creation of an exception to the purchaser-seller rule.[4] The opinion attempts to justify the

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interest in obtaining consent decrees outweighs the interest of the nonparty litigants in obtaining direct vindication of their private interests. Control Data Corp. v. IBM Corp. (D. Minn. 1969) 306 F. Supp. 839, 846. If administration of the antitrust laws would be ill served by allowing direct enforcement of consent decrees by third parties, it is difficult to understand how it would be better served by the creation of "rights", like that created by the majority opinion, that permit indirect enforcement of the decrees.

[4]The purchaser-seller rule has heretofore been understood to dictate that if a plaintiff in a section 10(b) private damage action is neither a purchaser nor a seller, he does not have standing to sue. To justify its conclusion that appellants have standing, therefore, the majority either must conclude that appellants are purchasers or sellers or must seek to modify the previously established meaning of the purchaser-seller requirement. The former conclusion cannot be sustained. The majority opinion, therefore, must be viewed as arguing for the latter conclusion.

The majority in essence establishes a second basis upon which to claim standing. Under the logic of the majority opinion, a plaintiff may bring suit if either he is a purchaser or seller or he is able to prove causation and damages. The purchaser-seller rule ceases to be operative in all cases; its applicability becomes conditional upon the plaintiff's inability to prove his cause of action.

The majority apparently believes that this is no departure from prior precedent, for it writes of "the cases allowing non-purchasers

exception by (1) implying that the purchaser-seller rule is grounded solely on a policy of denying standing where either causation or damages is dubious,[5] and (2) arguing that appellants should have standing because they could prove both elements. Neither proposition withstands scrutiny.

Although the purchaser-seller rule is occasionally buttressed by observations about the difficulties of proof that would accompany an abandonment of the rule, no authority purports to say that the potential for proving causation and damages is the essence of the rule. On the contrary, a person who is either a purchaser or seller and who alleges deception, causation, and damages can bring the action even if his ability to prove his case is nil. *(Cf. Mount Clemens Industries, Inc. v. Bell,* 464 F.2d 339, 346 n.11.) He may promptly lose on a motion for summary judgment, but his action cannot be dismissed for lack of standing. The majority opinion's effort to find sustenance for its view of the purpose of the purchaser-seller requirement in suits seeking only injunctive relief is

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or non-sellers to sue for damages under the statute and rule." No cases allowing such plaintiffs to sue are cited. Concededly, the majority cites several cases in which the strict purchaser-seller rule was relaxed somewhat. The relaxation that those cases countenance, however, is of a different sort altogether than that which the majority proposes. The majority proposes to uncouple the standing requirement from the purchaser-seller rule. The "forced seller" and "aborted purchaser-seller" cases to which the majority refers suggest only that the words "purchaser" and "seller" be liberally defined. They do not suggest that the words become altogether irrelevant and the rule of which they are a part become inoperative in certain contexts.

[5]If the majority were to fail to assert that this policy is the sole basis for the purchaser-seller rule, the logic of the opinion would fail. Even though some policies underlying the standing requirement were satisfied in a given case, if there were also other purposes to be met, standing would not properly be granted unless the majority were to show that the other policies also were not ill served by allowing appellants to sue.

unavailing. The purchaser-seller rule has only peripheral relationship to suits for an injunction.[6] A rule that no one could obtain preventive relief who could not prove that the fraud had already been consummated would be quixotic. Moreover, expansion of standing to bring suits for injunctive relief does not entail the risk of strike suits or of exposure to imponderable liability that expanded standing in damage actions threatens.

The assertion that appellants are peculiarly able to prove causation and damages and thus are separable from all other nonbuyers is also faulty. The quantity of shares offered, the price, and the time of sale are generally fixed in a securities offering. These factors, therefore, do not distinguish the offer to appellants from an offer of the same securities to the general public. Although the majority opinion says that the appellants' expectations are "rights," they are not legally cognizable rights. If the offer were withdrawn or the decree not complied with, appellants could not complain. The susceptibility of appellants' expectations to being so frustrated renders appellants' damages as difficult to prove as those of a plaintiff whose acceptance of an offer is "thwarted by the intervention of an earlier or higher bidder." Nor is it the case that causation is more easily proven by appellants than by a nonpurchasing public offeree. The majority opinion states, "ordinarily there will be little proof (other than the non-purchaser's own opinion, after the loss) that the non-purchaser would in fact have purchased but for the fraud . . ." The majority's position is reasonable, but irrelevant. One who has the opportunity

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[6]Of the three cases cited by the majority, none explicitly discussed the purchaser-seller requirement, and two involved plaintiffs who were in fact purchasers or sellers. Britt v. Cyril Bath Co. (6th Cir. 1969) 417 F.2d 433, 435. *Compare* Rekant v. Desser (5th Cir. 1970) 425 F.2d 872, 876-79 *with id.* 879-82.

to purchase securities may let the opportunity pass for want of ability to take it, for failure to notice the opportunity, or for misjudgment of the market. These considerations apply as strongly to appellants' case as they do to the case of public offerees. Appellants were as free to decline the bargain for the same reasons as any other nonbuyers. Appellants are in no better position than the public offerees to claim that if they had known the truth, they would have snapped up the bargain. The argument that a person not only adequately alleges damages, but also prima facie proves causation by stating a marked disparity between the value of the security and the offering price is startling. Any nonbuyer or nonseller could easily leap the causation hurdle if that proposition were true.

Appellants are therefore in the same legal position as were the nonbuying members of the general public to whom the same securities were subsequently made available by the consent decree and who, as appellants concede, have no standing to bring a section 10(b) damage action. Appellants cannot explain why their own situation is essentially different from other nonbuyers, except that they are a more discrete group than the general public and their disappointment can be assuaged for no more than $21,000,000, rather than many times that amount. Absent such a difference, the exception to the purchaser-seller rule that the majority seeks to establish is unjustifiable.

At the heart of the majority's inability to justify its exception to the purchaser-seller rule is what I believe to be a basic misunderstanding of the role of a standing requirement in the context of securities litigation. The majority apparently believes that any plaintiff who can credibly allege the substantive elements of a cause of

action should be granted standing. However, even if litigants can allege and even prove all of the elements of a section 10(b) damage claim, they nonetheless may lack standing. The standing doctrine is not designed to thwart actions by persons who have not suffered any injury from a wrong. It is a means of foreclosing actions by persons who have been hurt by wrongs, but who, for reasons of legislative, judicial, or social policy, are outside of the class of persons who are given a particular kind of remedy for the injury.[7] A federal standing requirement insures that litigants are sufficiently adverse to satisfy the case or controversy requisite of Article III of the Constitution, and it confines the persons who may bring suit to those whom Congress intended to provide the remedy invoked in a particular controversy. Appellants do not have standing because they are outside the class to whom Congress intended to extend the right to bring federal damage actions when it enacted section 10(b).

Congress could have preempted state law controlling deceptive practices in the marketing of these securities, and it could have given anyone injured by the practices condemned by section 10(b) a private federal damage remedy. It did neither. Instead, Congress created a scheme of private and public remedies superimposed upon state statutory and common law remedies. When confronted with a complex legislative scheme of this kind, the judiciary must be extremely careful not to upset the balances built into the scheme by lightly implying federal remedies or by diluting principles of standing. *(Cf. SEC*

[7]The Supreme Court has described the law of standing as a "complicated specialty of federal jurisdiction, the solution of whose problems is in any event more or less determined by the specific circumstances of individual situations." United States *ex rel.* Chapman v. Federal Power Comm'n (1953) 345 U.S. 153, 156.

v. National Securities, Inc. (1969) 393 U.S. 453, 465, 467 n.9; *Holloway v. Bristol-Myers Corp.* (D.C. Cir. 1973) .... F.2d .....)

An expansive definition of the class given standing to pursue section 10(b) damage actions promises some incremental benefit in preventing deceptive practices in the marketing of securities, one of the principal purposes of the section. Expanding the class, however, entails costs as well as benefits. Incautious loosening of the purchaser-seller rule will generate federal litigation, increase the cost of marketing securities,[8] inject into securities marketing new risk factors that defy accurate assessment, expose offerors to draconian damage claims, and invite strike suits.[9] Securities markets are complex and sensitive institutions. Opening the valve, even a little, that controls the flow of section 10(b) damage actions can so far unsettle the market as to defeat, rather than to promote, the benevolent purposes of Congress in enacting

[8]Under the majority's rule, securities traders would not only have to insure against potentially crippling damages, they would also have to bear increased compliance costs. The accuracy of a representation with regard to a security is usually judged by hindsight; if the price of the security rises substantially, prior representations may seem unduly conservative; if it falls, too optimistic. Under the purchaser-seller rule, offerors can protect themselves against unforeseen impositions of liability by acting with judicious restraint when dealing with others; they need merely avoid inaccuracies that induce others to act. If passive "investors" were also allowed to sue, such self-protective conservatism might prove suicidal, for an offeror would have to be micrometrically accurate. If securities traders are to be held responsible for lapses in such exactitude, the costs of accumulating, verifying, and presenting the necessary data would soar.

[9]The great ease with which plaintiffs can allege the requirements for the majority's standing rule and the greater difficulty that plaintiffs are going to have proving the allegations suggests that the majority rule will allow a relatively high proportion of "bad" cases into court. The risk of strike suits is particularly high in such cases; although they are difficult to prove at trial, they are even more difficult to dispose of before trial.

the statute. *(Cf. Herpich v. Wallace* (5th Cir. 1970) 430 F.2d 792, 804.)

The purchaser-seller rule has maintained the balances built into the congressional scheme by permitting damage actions to be brought only by those persons whose active participation in the marketing transaction promises enforcement of the statute without undue risk of abuse of the litigation process and without distorting the securities market.

The majority implies that its exception to the purchaser-seller rule does no real harm because few litigants will be situated exactly as were these appellants. In my view, the majority underestimates the ingenuity of counsel, but, even if it did not, the position is jurisprudentially unsound because it does not create neutral principles of law. In drawing the standing line between deceived nonbuyers given closed-end opportunities to purchase securities pursuant to a consent decree (appellants) and deceived nonbuyers given opportunities to purchase securities on a while-they-last basis pursuant to the same consent decree (nonbuyer public investors), the majority has not supplied a rationale keyed to the statute and rule to support its conclusion.[10] Without such an underlying rationale, there are no neutral principles preventing the majority's "causation and damages" or "functional equivalence" terminology from being extended to all passive "investors".

To expand standing to nonsellers or to nonbuyers, like appellants, who have taken no affirmative action of any

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[10]The majority opinion would allow standing to sue if the misled non-buyer were one of 10 offerees who could buy no more than 10,000 shares each of a 100,000-share offering, but it would deny standing if the non-buyer were identically misled as to the same shares, but he was one of 11 offerees of 10,000 shares of the same offering to be sold on while-they-last terms. Why?

kind in reliance upon alleged deceptive statements invites litigation that has nothing to do with protecting the integrity of the marketing of securities. The passive investor could always await market developments without any risk, claiming deception caused nonbuying if the value of the securities proved more promising than the offerors' glum predictions and deception caused nonselling if a rosier prospectus was followed by a market decline. Meanwhile, securities offerors would be hard pressed to find language for prospectuses that would be sufficiently neutral to avoid potential damage suits from bystanders.

I would affirm.

UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

MANOR DRUG STORES AND ALL OTHER USERS OF BLUE CHIP STAMPS WHO WERE ENTITLED BUT FAILED TO PURCHASE STOCK OF BLUE CHIP STAMPS, ON BEHALF OF THEMSELVES AND ALL OTHER PERSONS SIMILARLY SITUATED,

Plaintiffs-Appellants,

v.

BLUE CHIP STAMPS, a corporation, BLUE CHIP STAMP COMPANY, a merged corporation, LUCKY STORES, INC., MARKET BASKET, a corporation, PURITY STORES, INC., RALPHS GROCERY COMPANY, a corporation, SAFEWAY STORES, INC., THRIFTIMART, INC., THRIFTY DRUG STORES CO., INC., VONS GROCERY CO., a corporation, ROBERT E. ALEXANDER, DONALD A. KOEPPELL, LEONARD H. STRAUS, WILLIAM F. RAMSEY, ROBERT E. LAVERTY, RICHARD RALPHS, JOHN R. NIVEN, FRED VON DER AHE,

Defendants-Appellees.

No. 71-2223
ORDER

[Filed April 1, 1974]

Before: BROWNING, HUFSTEDLER, and CHOY, Circuit Judges

The majority opinion filed herein October 15, 1973, is modified as follows:

(1) The first sentence, [second] paragraph, slip opinion page [141],* now reads:

* The bracketed paragraph, page and line cross-references in this order have been changed in the course of printing the Appendix to correlate with the panel opinions as they are reprinted on the preceding pages.

Under the allegations of this complaint, the consent decree involved here serves the same function as did the contractual relationship referred to in *Mount Clemens.*

(2) The following new paragraph has been added prior to the concluding "disposition" line, slip opinion page [142]:

This holding does not undermine *Mount Clemens.* The allegations of the present complaint describe a highly unusual situation in which an unyielding insistence upon the existence of a contract to purchase as a prerequisite to relief would subordinate substance to form.

To meet the modifications in the language of the majority opinion, Judge Hufstedler makes the following changes in the dissenting opinion:

(1) From the first paragraph of the dissent, third sentence (slip opinion page [143]), delete the quote marks and strike the word "functionally."

(2) In the first full paragraph (slip opinion page [144]) line [3], change "is the 'functional equivalent of" to "serves the same function as did." Delete the quote mark at line 4.

(3) From the [second] paragraph (slip opinion page [144]), strike from the second line the word "equivalent" and substitute therefor the words "the same".

(4) At line [6] (slip opinion page [146]) change "'functional equivalence'" to "'same function' conclusion."

(5) From the first full paragraph (slip opinion page [146]), second sentence, change "The 'functional equiv-

alent' language" to "To state that the consent decree serves the same function as a contract".

(6) In the [second] full paragraph (slip opinion page [152]), penultimate line, change " 'functional equivalence' " to " 'same function' ".

The petition for rehearing is denied.

A majority of the court having voted to reject the suggestion for rehearing in banc, the suggestion is rejected.

Judges Koelsch, Ely, Hufstedler, Trask, and Wallace have requested that it be recited that they voted to rehear the case in banc.